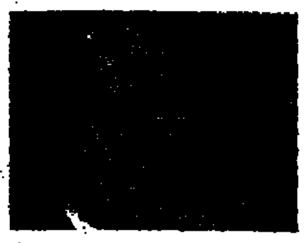
FINANCIAL TIMES

Start the week with...



Disney's agm

Cutting no ice on Anaheim pond

Christopher Parkes, Page 13

Dateline

Bonn: politics as usual

Ralph Atkins, Page 8

Lucy Kellaway

Managers are all the same

Page 10

http://www.FT.com MONDAY MARCH 3 1997

Swiss Telecom in line for 1998 part-privatisation

Swiss Telecom is due for privatisation next year. The sale of up to 49 per cent of the state-owned utility could raise some SFr5bn ($3.4bn) in Switzerland's first big privatisation. The government has retained J.P.Morgan as an adviser, and Credit Suisse First Boston is advising Swiss Telecom. Page 20

Banque Hervet, French state-owned regional banking group, may be privatised in the next few months. Officials are said to be raising the possibility of a public sale rather than a trade sale to a single buyer, as originally planned. Page 21

GM arm to probe bribes claim: Adam Opel, General Motors' German subsidiary, is to investigate allegations that employees took bribes in return for construction contracts for paint shops in Germany, Portugal and Mexico. Page 2; Isuzu claims better diesel engine, Page 24

German polls: Chancellor Helmut Kohl's Christian Democratic Union won a cautious vote of confidence in the state of Hesse, whose local council elections have been billed as a barometer of German public opinion. Page 2

Hertz plans offering: US car hire giant Hertz, a Ford subsidiary, plans to raise up to $100m through an initial public offering of its class A common stock. Ford will keep control of Hertz. Avis of the US, Hertz's biggest competitor, is also rumoured to be looking at a flotation. Page 21

Zaire rebels advance: Zairean rebels advanced to the key town of Kisangani, leaving the government's military campaign in the east of the country in disarray. Page 3

Randgold expects to list its international exploration and mining offshoot, Randgold Resources, in London before the end of June with a value of about £400m ($648m). South Africa's Randgold will also raise about £100m, making it one of the biggest gold mining IPOs in London for more than 10 years. Page 21

...uake leaves 35,000 homeless: Iranian ... teams defied snow to set up temporary ...ters for over 35,000 people left homeless by ...rthquake that killed 554 in the mountain... ...rth-west.

...an relents on contraception: The ...n has told priests to be more understand... ...wards married Roman Catholic couples ...e contraception – the first time a Church ...ve has urged compassion for what is still ...ered a sin.

...storms kill 28: Tornadoes hit the ...e of Arkansas on Saturday, killing 28 ...d injuring hundreds more. The torna... ...were accompanied by heavy rains and hail.

...tiations progress: Peruvian president ...rto Fujimori arrived for a meeting in the ...inican Republic, which could give asylum ...he rebels holding 72 hostages. Before he left ...a, Mr Fujimori reported progress in negotia... ...s with the leftwing Tupac Amaru rebels.

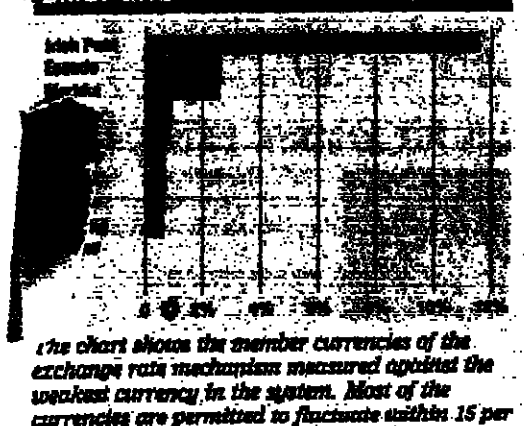
...riously rich: Two years of rising stock ...ces have made some top American executives ...riously rich – with stock and option holdings ...rth up to $250m. Page 21; Millionaire tax ...ed, Page 2

...march for pensions: Gurkha ...retired from the British army marched ...their families through the Nepalese capital, Katmandu, demanding pension parity with their British counterparts. They also want the right to live in Britain. The Gurkhas have served in the British army since 1816 and nearly 3,560 are based in Hong Kong, Brunei and Britain.

Top jockey bows out: Willie Carson, 54, one of Britain's most successful and colourful jockeys and winner of 17 British horse racing classics, confirmed his retirement after 35 years in the saddle.

European monetary system: The Irish punt remained the grid's strongest currency, with the spread between it and the lira, the weakest, widening to more than 11 per cent. Continued uncertainty about delays to the start of monetary union took its toll on Italy's lira, which slipped from sixth place. Currencies, Page 29

EMS: Grid



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

China aims for 8% growth and inflation cut

By Tony Walker in Beijing

China is aiming for 8 per cent growth in gross domestic product this year and a further drop in inflation, along with a drive to revitalise state-owned enterprises.

The country's state sector last year registered its worst result since the 1949 Communist revolution with more than 50 per cent of enterprises sliding into the red.

Mr Liu Zhongli, China's finance minister, said in his budget report yesterday that problems with lossmaking state enterprises were worsening.

Speaking at the start of the annual session of the National People's Congress, China's parliament, Mr Liu said: "Extravagance and waste are prevalent. There is still a large gap between the limited financial resources of the state and the construction and development needs of many undertakings."

Premier Li Peng vowed to continue the reformist legacy of Mr Deng Xiaoping, the country's paramount leader who died last month. The government would go ahead with the transformation of large state-owned enterprises which are "the backbone of the national economy", he said. China has singled out 1,000 enterprises for financial help.

National revenues last year exceeded budget expectations by 7 per cent and were 18 per cent up on 1995, reversing a long decline in the ratio of revenue to GDP. Customs revenues increased by more than 20 per cent.

But Mr Liu warned that, while revenue collection had improved, "losses in taxation are still serious, resulting in many cases of arbitrary tax reduction or exemption, tax evasion, tax fraud, refusal to pay taxes, taxes in arrears and other crimes". He warned of the continuing inability to exercise strict control over spending.

GDP growth was 9.7 per cent in 1996. Retail price rises fell to 6.1 per cent from more than 20 per cent in 1994. Chinese economists predict that GDP growth this year will exceed 10 per cent. China is forecasting a budget deficit in 1997 of Yn57bn ($6.86bn), about 7 per cent down on 1996, but plans to balance the budget by 2000 appear forlorn.

Mr Liu told parliament that the objective of reducing the deficit in the Ninth Five-Year Plan (1996-2000) would be "difficult to achieve".

A World Bank economist said this was a positive development and indicated that tax reforms introduced in 1994 were beginning to yield greater benefits to Beijing.

Spending in 1997 is expected to increase by 13.3 per cent to Yn896.79bn. Revenues are projected to rise by 14 per cent to Yn839.79bn.

The biggest spending increases will be in agriculture, education, science, and upgrading industry. Military spending will rise by 12.7 per cent to Yn80.57bn, about twice the inflation rate in 1996.

China will issue Yn248.59bn in bonds and other financial instruments to fund its budget deficit and cover its obligations on existing debt.

President orders government to resign in effort to stem rioting

Albania in state of emergency

By Kevin Done, East Europe Correspondent

Protesters in Vlore yesterday vent their anger following the deaths of hunger strikers in a gun battle with secret police Picture: AP

The parliament in Albania, the poorest country in Europe, last night declared a national state of emergency in response to violent riots in several towns.

As the country entered the worst crisis since its chaotic emergence from communism six years ago, President Sali Berisha warned that conditions had been created "to engulf Albania in a civil war".

He appeared on television last night to accuse foreign intelligence agencies and former Communists of fomenting unrest and to warn that he would use the "iron hand" of the law to end protests.

"Constitutional law and order has been violated and so have the institutions and the territorial integrity of Albania," he said.

On Saturday night, in an effort to restore calm, President Berisha ordered the resignation of his Democratic party government headed by Mr Aleksander Meksi, the prime minister.

It was the first concession to protesters following six weeks of civil unrest triggered by the collapse of a string of pyramid finance schemes. The collapse has cost many Albanians their life savings.

The resignation order failed to satisfy protesters and opposition forces, and violent riots continued yesterday in the south of the country.

Armed demonstrators threatened to march on the capital Tirana from the Adriatic port city of Vlore and other towns in southern Albania, unless President Berisha agreed to dissolve parliament and form an interim government of non-party technical and administrative experts – rather than a new Democratic party government as he had proposed.

They also called for postponement of today's parliamentary vote which was set to elect Mr Berisha to a second five-year term.

Mr Neritan Ceka, a prominent member of the opposition and the leader of the Democratic Alliance, said the resignation of the Meksi government was a "cosmetic solution".

He warned that Albania faced the risk of civil war unless Mr Berisha gave more ground.

The departure of the government threw into uncertainty the timing of a mission by the International Monetary Fund, agreed only last Friday.

The executive board of the IMF decided to send officials to the government of Albania by the middle of this month to hold talks on a new economic support package.

Last night Mr Lamberto Dini, Italy's foreign minister, called for an urgent European Union ministerial meeting to discuss the state of emergency.

Albania's neighbours Italy and Greece are becoming increasingly concerned about the risk of an exodus of illegal immigrants. Mr Dini said he also wanted international financial organisations and the US to take action.

"A financial rescue plan has to be drawn up as soon as possible, then political action is needed," he said.

The downfall of the government was precipitated by some of the worst scenes of violence in the current crisis. Towns in southern Albania were plunged into anarchy with at least four people killed in Vlore. In some towns the police have abandoned any pretence of maintaining order with police stations wrecked, roads blocked and the streets in the hands of protesters.

The violence spread yesterday to the southern town of Saranda on Albania's Ionian coast opposite the Greek holiday island of Corfu.

Armed rioters attacked the police station, seized weapons, set fire to public buildings and looted shops. About 100 prisoners broke out of the local jail.

Fight to contain anarchy, Page 2

Ex-banker applies to run LA's troubled schools

By Christopher Parkes in Los Angeles

A leading Californian banker has challenged tradition with a bid to start a new career as manager-in-chief of one of the biggest and most politically sensitive education authorities in the US.

Mr William Siart, 50, ousted as chairman of First Interstate Bancorp after a hostile takeover last year by Wells Fargo, has applied for the $160,000-a-year job of superintendent of the Los Angeles Unified School District.

Despite his lack of experience in the field, he said the district's 1,000 schools, 60,000 employees, 700,000 young "customers" and $5bn annual budget, presented a task that was comparable in scale with his former post.

First Interstate had 1,300 branches, 40,000 employees and an annual operational budget of $3bn.

Other similarities include high-security needs. But while banks deploy armed guards, electronic surveillance and silent alarm systems, LA's educators have to make do with much less.

Their crowded, dilapidated premises, where drugs and random violence are commonplace, are typically plastered

Continued on Page 20

Merrill Lynch to provide share trading on Internet

By Lisa Bransten in New York

Merrill Lynch, the biggest US brokerage, plans to become the first full-service broker to offer Internet share trading to all its customers next year.

Internet share trading has accelerated in popularity alongside the growth of the World Wide Web, but it has remained almost exclusively the province of discount brokers that offer low fees but little or no financial advice.

There are about 1.5m online brokerage accounts currently, but that figure is expected to surge to 10m by 2001, according to Forrester Research, a technology research and consulting firm.

Dean Witter Discover, the third-biggest US brokerage, was the first full-service broker to offer Internet trading, but the service is offered at discounted prices through Lombard Brokerage, a small electronically-oriented discounter it bought in December.

Fees for online trading have fallen as low as about $9 per trade as brokerages battle for market share. One tiny brokerage in Florida is even offering some free transactions.

Merrill plans to offer online trading to customers, in conjunction with existing accounts, as early as the middle of next year, said Mr Randal Langdon, director of interactive sales technologies.

With this move, Merrill skirts the issue of how full-service companies compete with Internet brokerages without giving up lucrative commission-based structures.

Mr Michael Flanagan, an independent analyst who follows the securities industry, said the brokerages could face the problem of losing business to discounters once clients became comfortable with electronic trading.

Transaction fees on traditional Merrill Lynch accounts are based on the size of the trade. For example, the fee on 100 shares of a stock worth $100 or more would be $105.

The Merrill Lynch Financial Advantage Service, however, allows customers to avoid trading commissions in exchange for a flat fee based on account size. At the minimum balance of $100,000, investors could place 12 commission-free trades per month for a quarterly fee of $1,500.

The remaining two of the four largest full-service brokers, Smith Barney and Paine-Webber, have no plans to offer Internet share trading, although both offer access to research and account information over the web.

Merrill's new HQ, Page 6

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

EU to snub greenhouse gases plan

By Caroline Southey in Brussels

European Union environment ministers were last night set to reject proposals for EU-wide cuts in greenhouse gas emissions, at an emergency meeting in Brussels.

Failure to agree a common position on reducing emissions will scupper the EU's chances of tabling proposals at a key meeting of OECD environment officials on climate change in Bonn today.

A number of EU countries oppose plans under which the EU would cut greenhouse gases by 15 per cent by 2010. They are also deeply divided over a "burden sharing" proposal apportioning different levels of cuts to each member state, depending on levels of pollution and on how energy is generated.

Ministers met in Brussels for an extraordinary meeting called by the Netherlands, which currently holds the presidency of the EU. It insisted on the 11th-hour talks in an effort to thrash out a common EU position ahead of the Bonn meeting.

Pressure is mounting on the OECD countries to finalise the terms of a protocol for an international summit on climate change in Kyoto in December. The summit has been called to map out the next phase of cuts in greenhouse gases following the mandates agreed at the Rio and Berlin summits.

Despite wide opposition to the proposal, a Dutch official said the presidency was still hopeful the ministers would reach a deal when they reconvened today.

The presidency has proposed that the EU should cut some gases by 10 per cent by 2005 and by 15 per cent by 2010. In addition, it wants an 8 per cent cut in carbon dioxide emissions by 2005 and 12 per cent by 2010.

"Member states think these targets are too ambitious and that as a result the EU risks being marginalised in the Kyoto talks," said an EU diplomat. However, some countries, such as Germany and Denmark, do not think the cuts go far enough.

Opposition is even more widespread to the "burden sharing" plan under which the Dutch propose targets for each member state. These include a 40 per cent cut in emissions in Luxembourg, 30 per cent in Germany, 25 per cent in Austria and Denmark and 20 per cent in the UK.

At the other end of the scale Greece, Spain, Ireland, Portugal and Sweden are given the leeway to increase emissions from 5 to 25 per cent. Nine countries, including Belgium, Denmark, Italy, Luxembourg, the UK and Finland, believe the cuts they are being asked to make are too big.

The targets are calculated on the basis of how countries generate energy. France, for example, has argued that its scope for cutting emissions is small because 80 per cent of its energy comes from nuclear power plants. A further factor is whether member states can afford tough emission standards, which explains the room for manoeuvre given to Greece, Spain, Ireland and Portugal.

Albania leader fights to contain anarchy

By Kevin Done, East Europe Correspondent

Albania's beleaguered President Sali Berisha has made his first substantive concession to the forces of popular protest with the removal at the weekend of the government of the prime minister, Mr Aleksander Meksi. It is unlikely to be the last, however, as he battles to contain the rising wave of anarchy sweeping through some towns in southern Albania.

The removal of the unpopular government of Mr Meksi was a nod to popular anger at the collapse of the pyramid investment schemes where many Albanians had invested their savings. But it was offset by last night's hardline declaration of a state of emergency.

It is still far from clear, however, what forces Mr Berisha can call on to re-establish public order on the streets of cities such as Vlore, which were abandoned to victorious protesters by local police several weeks ago.

As part of the reforms adopted by Mr Berisha since his ruling Democratic party ousted the communists in 1992, the army – built up during the 46 years of repression under the Stalinist regime of Enver Hoxha and his successor Ramiz Alia – has been greatly reduced, damaging morale.

Outside the capital Tirana, where hitherto the police, backed by large numbers of secret police and plain clothes officers, has maintained a tight grip, the forces of public order have often been fighting a losing battle.

Local policemen, many of whom have been as much victims of the collapse of the fraudulent pyramid finance schemes as their fellow citizens, have been reluctant to enter confrontations, leaving the fight to outnumbered riot police and agents of the secret police.

Protesters in southern Albania have been growing stronger since the first unrest erupted six weeks ago, and are frequently now armed. They emerged victorious in Vlore at the weekend from a gunfight with officers of SHIK, the secret police, in which at least four people were killed and the SHIK headquarters was ransacked.

Mr Neritan Ceka, leader of the opposition Democratic Alliance, warned at the weekend that Mr Berisha risked civil war unless he gave more ground to the opposition forces. However, after the chaotic events of the weekend, it is still unclear whether Albania's increasingly authoritarian president is ready to yield.

The next test of Mr Berisha's intentions and his personal authority within his own party comes today, if he decides to press ahead with the planned parliamentary vote that is supposed to return him to a second five-year term.

He has led Albania through a reckless 12 months in which the Democratic party staged a deeply flawed general election last May to consolidate its hold on power.

Since then the government has ruled with virtually no opposition from the Socialist party, the partly reformed former communists, which has boycotted parliament and refused to take up its seats.

The fragmented opposition parties have sought to rally their forces in the new Forum for Democracy, which is calling for the formation of a "technical government" and for the holding of fresh elections.

But with the Socialists themselves suffering from deep internal divisions, the opposition is yet to show that it can exploit popular anger with the Berisha regime.

Albanian immigrants shout slogans against President Sali Berisha during a demonstration outside the Albanian embassy in Athens yesterday Reuter

Western countries, whose financial support has been crucial to the maintenance of the regime, are still floundering in response to the crisis, although the US has been resolute ever since last year's election in calling for round table talks which would bring the opposition forces back into the political arena.

Having reversed its former policy of unwavering support for Mr Berisha in the wake of that poll, it is still calling for the drafting of a new constitution and the holding of fresh elections.

The European Union has been much less decisive, with some northern states keen to exert pressure on Mr Berisha, while close neighbours such as Greece and Italy, vulnerable to a mass exodus of illegal Albanian immigrants, have insisted on a softer line.

While western countries press for political reforms, the need for Mr Berisha to take action to halt the country's economic slide is also becoming urgent. The currency has weakened dangerously in recent days, prices are rising rapidly, and the budget deficit grew alarmingly last year to around 10 per cent of gross domestic product.

Before the weekend's latest chaos the International Monetary Fund was expected to send a fresh mission to Albania during the next two weeks, ready to insist on tough reform conditions in exchange for a new economic support package.

The question now is whether there will be any sustainable government in Tirana for the IMF officials to talk to, as Mr Berisha moves to tackle the most pressing need of restoring calm to the streets.

Italian footballers told to play 15 years' extra time

By Paul Betts in Milan

Italy's soccer players have become the latest target of the Italian government's efforts to cut the public deficit and reform the costly welfare system.

The soccer world has been outraged by a proposal from Mr Tiziano Treu, employment minister, that footballers should no longer qualify for a pension at 45 but continue working until they are 60 like most Italians.

"A footballer is pensioned off at 45 but at 35 many are already out of work," retorted Mr Roberto Boninsegna, the former Inter Milan and Juventus star, in an interview in the Turin newspaper La Stampa. And only a few, he added, become multi-millionaires who have accumulated enough money to go into early retirement.

Under an old rule, professional footballers could claim a monthly pension averaging around L1.8m ($1,100). Now the government wants to reform the pension system for football and other professional sports such as cycling and basketball to ensure players' contributions match their pensions more equitably. One way of doing this is making them work longer and thus pay more contributions.

After a meeting in Rome at the employment ministry, the heads of football and sporting associations said they were well aware of the country's economic problems. As a compromise, Mr Sergio Campana, head of the Italian footballers' association, said players could perhaps go on working until 52 or even 55 but on several conditions. One of them was that the government stopped drawing money from the association's supplementary pension fund.

The government is now under pressure to take new measures to reform a pension system which is already around 14 per cent of GDP and could rise to 16 per cent in 30 years, according to the latest report of the state accounting agency.

The centre-left administration is considering pension reform as part of the measures to reduce this year's public sector deficit-to-GDP ratio to the 3 per cent required for entry into economic and monetary union.

Sofia seeks debt rescheduling

By Nikolai Petrov in Sofia and Anthony Robinson in London

Bulgaria has asked the Paris Club of central banks to reschedule $50m of this year's $126m tranche of debt repayments.

The move is part of an economic stabilisation programme drawn up by Mr Stefan Sofianski, acting prime minister, to pave the way for additional loans from the European Union, which also includes accelerating privatisation and negotiating a new standby agreement with the IMF.

Talks are also under way with the IMF mission in Sofia to replace the $580m standby agreement signed last July and intended to run for three years but suspended in October.

The EU, which is financing a $23m emergency programme to provide food and other relief for those hardest hit by the crisis, is expected to discuss further economic assistance once a new IMF standby agreement is agreed. An IMF deal is also linked to the reactivation of World Bank projects worth over $200m aimed at underpinning structural reforms.

The new government, after moving quicky to purge the boards of hundreds of state companies of members appointed by the previous socialist government, has also decided to offer potential foreign investors larger stakes in companies to be privatised, to try to make privatisation more attractive and increase revenue.

The former government wanted to privatise only 25 per cent of the Bulgarian telecommunications industry and retain management control.

The government is now prepared to offer foreign investors whatever stake in the state-owned telecoms company is required to gain the maximum revenue per share.

Three western banking groups – Natwest, Merrill Lynch and Deutsche Morgan Grenfell – are bidding for the telecoms privatisation mandate.

The sale of Sodi Devnaya, the Varna-based chemical company, to Solvay of Belgium, the biggest privatisation originated under the old regime, is thought to have been finalised, subject to international regulatory agreement.

Turkish PM warned on Islamists

By John Barham in Ankara

Mr Necmettin Erbakan, Turkey's Islamist prime minister, has been warned not to undermine the country's secular system by the military-dominated National Security Council.

The Council, which groups senior military commanders, intelligence officials and government ministers, met for nine hours on Friday. The secularist generals issued Mr Erbakan with a list of 20 measures he must take to preserve the state.

The military demanded a strengthening of the secularist state school system and restrictions on the growth of Islamist education. Some religious schools would be turned into technical colleges. Flourishing Islamic brotherhoods, in theory illegal, would be combated with greater vigour.

The generals also want stricter controls on weapons, following reports claiming that local branches of Mr Erbakan's Refah party are recruiting Islamist militias. Above all, they demanded strict enforcement of the secularist constitution handed down by the last military government that seized power in 1980.

The military have toppled three governments since 1960. Rumours of another military plot swept Turkey last month when the army sent a column of tanks through Sincan, an Islamist suburb of Ankara whose mayor in a speech demanded adoption of Islamic law.

Mr Erbakan is to hold meetings this week with opposition leaders "to expand further the atmosphere of tranquillity and security in the country". Opposition parties last week failed to topple his eight-month-old government with a confidence motion in parliament accusing Mr Erbakan of threatening secularism. A second vote is expected this week.

Mrs Tansu Çiller, leader of the secularist True Path party, the coalition's junior partner, contacted western governments at the weekend to reassure them Turkish democracy was not in danger. She spoke to Mrs Madeleine Albright, US secretary of state, and Mr Romano Prodi, Italy's premier.

Mr Erbakan's attempts to strengthen ties with Islamic states, notably Iran, have also received a sharp setback. The strongly secularist foreign ministry expelled Tehran's ambassador, Mr Mohammad Reza Bagheri, for a speech in Sincan supporting calls for an Islamic republic in Turkey. Turkey's deputy chief of staff further soured relations by describing Iran as a "terrorist state" that supports the separatist Kurdistan Workers party.

EUROPEAN NEWS DIGEST

CDU gains in Hesse voting

Chancellor Helmut Kohl's Christian Democratic Union (CDU) received a cautious vote of confidence yesterday in the state of Hesse, whose local council elections have been billed as a barometer of German public opinion.

According to exit polls broadcast yesterday evening on television the CDU vote rose by 1.3 percentage points to 33.3 per cent, and there was a 1.8 point rise in the vote of the ruling Social Democrats (SPD) to 38.2 per cent.

Support for the Greens and the liberal Free Democratic party declined slightly. The far-right Republicans also appeared to have lost ground, thereby calming fears that rising unemployment would translate into greater support for extremist politics. The overall turnout was below 70 per cent, significantly lower than four years ago.

Polls pointed towards a possible change of power in Frankfurt, the main city in Hesse. The CDU appeared to have increased its share of the vote by 5.6 points to 37.6 while the SPD, which ruled the city council in coalition with the Greens, dropped to around 30 per cent. The Greens and the FDP gained slightly. The CDU's hopes of taking power in Frankfurt, where it already holds the office of mayor, now depend on whether the FDP makes it across the 5 per cent threshold required for representation in the council. *Frederick Stüdemann, Berlin*

Millionaire tax mooted

Germany's opposition Social Democrats have proposed a special levy on the country's 950,000 millionaires as part of a broad tax reform package being discussed with the government. The proposal would in effect mean the reintroduction of a wealth tax which the ruling coalition abolished this year in the face of bitter opposition from the SPD. Mr Rudolf Scharping, parliamentary leader of the SPD, told Bild am Sonntag newspaper his party wanted millionaires to pay 1 per cent on wealth of DM1m ($600,000) upwards, 2 per cent from DM10m and 3 per cent from DM50m. *Reuter, Frankfurt*

Danube plea goes to court

The International Court of Justice will begin public hearings today on Hungary's objections to Slovakia's diversion of water from the Danube to power a hydroelectric plant. The issue dates back to 1977, when Hungary and the former Czechoslovakia agreed to dam the Danube to make it more navigable, prevent flooding and generate electricity.

Construction of the Gabcikovo electricity plant in southern Slovakia began in the 1980s. In 1989 Hungary pulled out of the project before work on its electricity plant at Nagymaros began. Late in 1992, weeks before it split with the Czech Republic, Slovakia unilaterally diverted the river upstream from Hungary after the dam was completed. After appeals from the European Parliament and intervention by western governments, both sides agreed to seek arbitration from the International Court of Justice in The Hague.

Bratislava has retaliated by accusing Budapest of breaking a treaty by abandoning its part of the project. A ruling is expected in the autumn. *Vincent Boland, Prague*

Offences hit Danes' ratings

The drink-driving records of the leader of Denmark's opposition Conservative party and of his successor have boosted the poll ratings of the ruling Social Democratic party, which was languishing at 28.0 per cent last November, more than six points down from the 1994 election. Mr Hans Engell (left), the Conservative party leader since 1993, resigned on February 21 following a drink-driving offence. On Saturday it was revealed that his successor, Mr Per Stig Moller, a former minister of the environment, received a 20-day prison sentence for a drink-driving incident 30 years ago when he was 24. Mr Moller not only failed to inform [illegible] party colleagues of the past offence before they chose him to lead the party a week ago, but he denied it had happened when questioned by journalists. Later he called the incident "a purely private affair".

Mr Moller is expected to ride out the storm, but his longer term prospects will depend on how the party does in the next election. In a Gallup poll published yesterday the SDP scored 33.3 per cent and the Conservative party 12.8 per cent. *Hilary Barnes, Copenhagen*

Opel to probe contract bribery claims

By Frederick Stüdemann in Berlin

Adam Opel, General Motors' German subsidiary, said yesterday it would investigate allegations that employees took bribes in return for awarding contracts for the construction of paint shops in Germany, Portugal and Mexico.

The move comes in response to an article in today's edition of Der Spiegel magazine, which claims that the state prosecutor's office in Brunswick has spread its investigation into the alleged paying of bribes by employees at Volkswagen to Opel.

Opel employees are alleged to have taken bribes of several hundred million D-Marks for the building of paint shops at its main plant in Rüsselsheim in Germany and at factories in Azsambuja in Portugal and Silao in Mexico. They are also alleged to have taken a cut on the construction of a paint shop for Saab, the Swedish car company in which GM has a stake.

The article claims that the decision to extend the probe to Opel is based on the testimony of Mr Klaus Ulsamer, former managing director of Flexible Automation, a subsidiary of ABB which makes robots for paint shops. His testimony is at the centre of the Volkswagen investigation, which has already resulted in the dismissal of one VW employee and the suspension of three others.

According to the Spiegel article, the state prosecutor's office is pursuing the theory that a number of employees who later moved from Opel to Volkswagen following the defection of Mr José Ignacio López, a GM executive, were involved in concerted corrupt purchasing practices. Volkswagen was unavailable for comment yesterday.

In a statement Opel said yesterday it was not aware of any wrongdoing but it would "carefully pursue" the "new indications of irregularities in connection with the awarding of contracts to ABB for paint shops". If there were reasonable grounds for suspicion that wrongdoing had occurred, Opel said it would call in the state prosecutor's office.

The Opel statement also referred to a previous case in 1994, when an internal investigation found that company employees had taken bribes from building companies in return for awarding contracts. Opel called in the state prosecutor's office and the executives were later sacked.

Last year GM introduced a strict new policy on company ethics which went into great detail on the nature and level of hospitality employees could accept from third parties. The policy was aimed at eradicating any sense of obligation outside parties could create through offering hospitality to GM staff.

The investigations at Volkswagen have already prompted a widespread review of the purchasing practices at Europe's biggest car company. VW last week said it had called on suppliers to inform the company when any suspicions of corrupt practices arose.

Freedom of the autobahn may end

By Ralph Atkins in Bonn

Pressure on the country's public finances may soon hit Germans where it hurts: in their cars. The federal transport ministry in Bonn has challenged the traditional freedom of the autobahn by proposing that tolls should be used to finance 17 road projects in the next century.

If approved by the Länder (states), motorists would for the first time have to pay to use stretches of trunk routes and autobahns. However, in the face of stiff resistance to any additional motoring "taxes", charges would be restricted at least initially to particularly costly projects such as river or mountain crossings.

The proposals follow heavy spending, particularly in eastern Germany, by the transport department, which has the largest investment budget of any federal ministry. Mr Matthias Wissmann, its minister, said transport had to make its contribution towards controlling federal finances, which are under pressure because of the Maastricht criteria on economic and monetary union.

But the 13.4m-member ADAC – the German motorists' club – said it believed that "in principle all road-building projects ought to be financed through receipts from taxes imposed on motorists – more than DM80bn [$47bn] a year". It did not rule out, however, using tolls for "very important" projects which might not otherwise go ahead and said the particular schemes proposed by the transport ministry would have to be scrutinised first.

The Bonn government is also trying to encourage private sector involvement in public sector projects as part of wider structural reform, and to boost the depressed German building industry – although Mr Wissmann opposed "privatisation" of the autobahn network.

The tolls plan emerged after a meeting last week between the government and building industry, at which the government was urged to intervene to help revive the sector. The industry won some support for its proposal that government encourage private sector projects by providing "seed-corn" financing for up to 20 per cent of traffic infrastructure projects.

Last year, investment in the building industry fell – for the first time since reunification – by nearly 3 per cent, with western Germany worst affected. Mr Günter Rexrodt, economics minister, described the situation in the construction industry as "serious and critical". He appealed for unions and employers to improve competitiveness, "through appropriate wage agreements and further steps to cut the cost and increase the flexibility of labour".

Dateline Bonn, Page 8

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl- Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
R

Fundraising probe more likely in US

By Patti Waldmeir in Washington

The campaign for a special prosecutor to investigate alleged fundraising abuses in the 1996 elections picked up momentum at the weekend, as the issue of the role of money in US politics continued to dominate the political agenda.

Several senior Republicans appeared on television political chat shows to call on Mrs Janet Reno, attorney general, to appoint an independent counsel to investigate Democratic party fundraising.

So far, specific allegations of violations have focused on officials too junior to be covered by the special counsel law. President Bill Clinton, and Vice President Al Gore – whose actions are covered by the law – are mostly accused of impropriety rather than illegality.

But politically, critical mass appears to be building behind the appointment of a prosecutor. Such a decision could prove difficult for Mrs Reno, who has been criticised in the past for being too quick to appoint counsel.

Mr Dick Morris, one of the chief architects of the 1996 Clinton campaign, yesterday highlighted the difficulty of proving illegality: "It takes real talent to do something illegal under these laws," he told the Fox news channel. "They are such bad laws, with so many loopholes, you have to be an absolute genius to be a criminal."

But the drive to change those laws in Congress, through reform of campaign finance legislation, appears to be faltering. Democrats are insisting that Republicans make a firm promise to reform the laws before they will agree on funding for a Congressional investigation into past abuses. Republicans are adamant that Congress must focus on past violations, not on reform.

Mr Trent Lott, Senate majority leader, promised yesterday that Congressional hearings on the 1996 campaign would definitely take place. "We're going to have these hearings. We don't have any choice," he said. But with the two sides continuing to squabble over the scope of the hearings, over their funding and over reform, this is still not certain.

Meanwhile, senior Democrats lashed out at the US media, which continues to shine a harsh spotlight on fundraising. Governor Roy Romer, chairman of the Democratic National Committee, castigated the media for righteousness about campaign finance.

● Senator Lott yesterday offered to alter the Republicans' proposed balanced budget amendment to the constitution in a last-ditch effort to capture the one vote needed for it to pass in a vote tomorrow.

US identifies its allies in drugs war

Stephen Fidler reports on the State Department's International Narcotics Strategy Report

Amid the ballyhoo surrounding Washington's annual certification of its allies in the international drug war, the State Department report that accompanies the announcement often gets overlooked. Yet the International Narcotics Strategy Report contains the most detailed regular public analysis by the US administration of the international trade in illegal narcotics.

On Friday, the administration announced that Colombia, Nigeria, Afghanistan, Syria, Iran and Burma remained on its blacklist of states that had failed to co-operate fully with the US in the fight against drugs. Three others – Belize, Lebanon and Pakistan – were deemed not to be co-operating fully, but economic sanctions against them were suspended on national interest grounds.

After an intensive discussion within the administration, Mexico was cited as an ally in good standing, despite the arrest last month of its top anti-drug official. Mr George Stephanopoulos, a former senior adviser to President Bill Clinton, said yesterday a bipartisan effort to overturn this decision and rescind Mexico's certification would lead to a battle in Congress.

The State Department report said among the successes of US-led attempts to combat the drugs trade last year were interdiction efforts that forced traffickers to lengthen their supply lines to the US through the Eastern Caribbean.

A so-called "air bridge" carrying the bulk of Peruvian cocaine base to Colombia for processing and distribution had been broken.

This so depressed the price of coca leaf in Peru's Upper Huallaga valley – the world's most important growing area – that growers abandoned fields and contributed to a fall in coca cultivation by 18 per cent to the lowest levels in a decade. There was also a 12 per cent drop in Bolivia in potential coca leaf production, but this was offset by a 32 per cent increase in coca cultivation and potential leaf production in Colombia, in spite of aggressive aerial eradication.

Bad news, however, included the growing use of heroin in the US. Estimates of the US heroin addict population, static at 500,000 for two decades or more, were being revised upwards. The more than 2m cocaine addicts in the US were increasingly using heroin to offset the effects of cocaine, encouraged by high purity heroin from Colombia that can be snorted like cocaine. Europe, meanwhile, "has acquired a voracious appetite for cocaine and amphetamines".

"The lines between cocaine and heroin consuming countries are blurring. Cocaine and heroin trafficking, once limited to a few major routes and destinations in North America and Europe respectively, has become all but universal," it said.

Moreover, new threats were emerging. Amphetamines – including methamphetamines such as Ecstasy – "are well on their way to becoming the drug control nightmare of the next century".

Methamphetamines, hybrid cousins of the "Speed" of the 1960s, were displacing cocaine as the stimulant of choice, and spreading too into developing countries. Mexico was currently the principal supplier to the US, but production centres were spread as widely as Poland, Japan and the Philippines.

Some reports suggested some heroin refiners in Burma had added methamphetamine to their product list. Meanwhile, Burmese production of heroin – 60 per cent of the world's total potential output of 430 tonnes – could alone probably satisfy world demand.

Mexico was the transhipment point for about 80 per cent of the methamphetamine precursor chemicals going to the US; and between 50-60 per cent of US bound cocaine shipments.

Money laundering was also a grave problem in Mexico. "US officials consider Mexico the money laundering haven of choice for the initial placement of US currency in the world's financial system. Mexican officials acknowledge they have lost the first round against money launderers because the system is "permeated by suborned officials," the report said. The war on money laundering was weakened by "endemic corruption".

The report also contains the most explicit official statement yet from the US government about the activities of Mr Raúl Salinas, brother of Mr Carlos Salinas, former Mexican president.

The Swiss government blocked more than $103m of suspected narcotics proceeds in 20 Swiss bank accounts belonging to Raúl Salinas. These were "illegal assets hidden by the Raúl Salinas cocaine trafficking organisation," the report said. Mr Salinas, awaiting trial in jail in Mexico, has said the funds derived from legitimate business dealings.

Daniel Dombey adds from Mexico City: The Mexican government yesterday announced it had obtained a warrant for the arrest of Mr Carlos Peralta, a leading businessmen, for tax fraud. Mr Peralta, until recently head of Grupo Iusacell, a telecommunications company, had earlier been caught up in the scandal surrounding Mr Raúl Salinas, brother of former President Carlos Salinas. In 1996, Mr Peralta said he had lent $50m for investment purposes to the former President's brother, who has been held since 1995 on charges of corruption and conspiracy to murder.

Out-gunned LA police show their quality under fire

By Christopher Parkes in Los Angeles

Los Angeles police confer over the body of a gunman after Friday's bank robbery Reuter

What a difference a day makes. On Thursday last week, the Los Angeles Police Department was in trouble again, under fire from media and rights groups after the shooting in error of a bystander who wandered within range of a special services raid.

The force once hailed as "LA's finest", now more commonly mocked after events such as the videotaped beating of Mr Rodney King, and a flatfooted handling of the murders in the O J Simpson case, often has such days.

Yet on Saturday, the North Hollywood police station was overflowing with pies and donuts – the force's staple fodder – plus thank-you notes and flowers. Cops throughout the city were basking in glory.

It started on Friday morning when two white bank robbers, black-clad and in body armour, strode slowly out of a Hollywood bank and opened fire.

A handful of police quailed in a storm of high-velocity bullets from the bandits' AK-47 assault rifles, reloaded uncounted times from 100-shot magazines carried on ammunition belts. The return fire, from 9mm Berettas and police regulation reserves of 15 bullets a man, popped and flattened on the armour.

A policeman sat in a puddle of blood, propped against his black and white patrol car. "I'm in the wrong place with the wrong gun," one of his colleagues said later.

As police and FBI reinforcements arrived, some laden with heavier weaponry commandeered from a nearby gunshop, Bandit One went down from a headshot. His body buckled and flopped on to a grass verge. Bandit Two, firing through the windscreen of his crippled getaway car covered five blocks before he succumbed to the incoming forces of law, and died face down in the street.

This much is certain: it was all shown live on TV. Photographs in Saturday's Los Angeles Times showed Bandit Two, still alive, prone, and framed between the peppered wheel arch of his car, the restraining hand of a burly cop and a scattering of spent cartridges.

Two members of the Shoot 'em Up Gang, aka the AK-47 Bandits, suspected of two similar successful bank raids last year, had died. At least 17 police and bystanders had been wounded.

TV news broadcasts later sealed the convergence of fact and fantasy. The most explicit clips and comments on the day's events were aired intercut with extracts from last year's hit gangster film, Heat.

Despite critical acclaim for the performances of Al Pacino and Robert De Niro, many battle-hardened reviewers found the movies' bungled bank robbery and bullet-shredded dénouement hard to take. Yet scenes described by reviewers as the "midday gun battle that verges on parody," and "a minor war... through the streets of downtown Los Angeles... is the film's most grievous excess," were acted in reality last Friday.

Helicopter news cameras, which daily scan LA's scrambled landscape for the routine rough-and-tumble of freeway pile-ups, high-speed chases and house fires, had chanced on an event which reflected – for once with indisputable clarity – two central aspects of the city's travails with violent crime.

They chronicled the cold nonchalance, the immaculate logistics and the firepower which are the stock-in-trade of LA-region criminals who commit three bank robberies every day – 20 per cent of the US total.

The images left no doubt about the bravery and ingenuity of the LAPD, only about the wisdom of sending them daily out-gunned into the line of fire.

Maradona has designs to theme himself

By Jimmy Burns in London

The international boom in theme restaurants has attracted its most controversial entrant in the figure of Diego Maradona.

The Argentine footballer, who damned the English with his "hand of God" before joining the pantheon of sporting giants, plans to develop an international chain of cafe/restaurants from Peking to Paris called "Maradona Cafe" themed on himself.

"It's an idea we're developing along the lines of Planet Hollywood. We hope to have it off the ground before the end of the year," Mr Maradona's lawyer, Mr Daniel Bolotnicof, said yesterday.

Precise investment plans are being kept secret by the Maradona camp. But the plan is for a first restaurant to be opened in the coming months in the fashionable Buenos Aires neighbourhood of Palermo, with other restaurants following in China, Japan, Italy, France and Spain.

Mr Maradona is collecting an assortment of shirts, trophies, photographs and videos which he will "donate" to his eating venues around the globe. Additional memorabilia will be solicited from some of the player's friends in the football world, Hristo Stoichkov, George Weah, and Gianluca Vialli, as well as his favourite politician, *Fidel Castro*.

The project is the latest and most ambitious off-field commercial venture by Mr Maradona, whose career has personified the growth of football as big business.

During the 1980s, when Mr Maradona played his best football, millions of dollars generated by a combination of massive transfer fees, and merchandising and TV deals were channeled into off-shore accounts in Liechtenstein.

Much of this was spent on a lavish life style although the player seems to have survived with sufficient disposable income to invest in a retirement policy.

Mr Maradona hopes his celebrity status as one of the world's greatest footballers will bring in millions of customers to his chain.

Friends and managers of Mr Maradona are thought to be keen to help him build a new future following a career which in recent years has been badly undermined by the player's drug addiction.

For the last two years Mr Maradona has been tied to a lucrative TV-backed contract with the Argentine team Boca Juniors. But last week transfer negotiations between Mr Maradona and Uruguayan football champions Penarol collapsed after the player had threatened to play for the club only when he felt in the mood.

Rebels advance on Zairean military base

By Michela Wrong in Kinshasa

The Zairean government's military campaign in the east of the country was in disarray yesterday as rebels advanced relentlessly to the key riverside town of Kisangani and stood poised to penetrate the diamond province of east Kasai.

An attack on Kisangani, base for army operations against the alliance of democratic forces throughout the four-month civil war, looked imminent following the rebels' capture of the towns of Kindu and Lubutu. A spokesman for Mr Laurent Kabila, the rebel leader, said the aim was to halt the Zairean military's recent bombing raids on towns in occupied areas.

Aid officials, evacuated by the United Nations from Kisangani on Saturday because of the growing security risk, said up to 150,000 Rwandan refugees in the camp of Tingi-Tingi, near Lubutu, were on the move again but it was not yet clear where they were headed.

"It is a catastrophic situation," said Mr Bernard Jacquemart of the French medical charity, Médecins du Monde. "Many refugees are suffering from malnutrition and diseases picked up during months on the road and are in no state to travel. We believe 10,000 are at risk."

Although Mr Kabila had declared his willingness to negotiate and last week attended talks about talks hosted by South Africa, many analysts believe he will not halt what has so far proved a stunningly easy drive into Zaire until he controls Kisangani.

That victory, they argue, would deliver a crushing psychological blow to the government and put ailing President Mobutu Sese Seko, who already appears ready to make terms in spite of a defiant official stance, under pressure to be conciliatory.

News on Friday that Kindu had fallen, leaving the government in control of only one airstrip east of Kisangani, has already rattled the government, which sees rebels nibbling at the edges of its mineral-producing provinces.

A top government official acknowledged Kindu gave the rebels access into Kasai, source of most of the country's diamonds. "The route from Kindu is the route into Kasai and Kasai means diamonds," he said. "Once the rebels reach the diamond areas it will be impossible to get them out again. We must avoid that at all costs. We must win Kindu back within four days."

That prospect looks increasingly remote. Eyewitnesses say foreign mercenaries brought in to train the army are proving barely more disciplined than local troops and some of the hired guns have left the country in despair.

"The ploy of bringing in mercenaries has backfired on the authorities," said a businessmen with links to Kisangani. "Their presence has damaged morale because ordinary soldiers are wondering why they should fight for peanuts when the mercenaries are earning a hundred times more."

● The Zairean rebel leader, Mr Laurent Kabila, yesterday appealed to the UN to help 170,000 Hutu refugees who fled a camp his troops overran, but said there could be no immediate ceasefire.

"Many hundreds of refugees are coming and our men have been ordered not to harm them... The United Nations is invited to go to Tingi-Tingi to help the refugees to return home and help repatriate them," he told a news conference in the eastern city of Goma.

Arafat plea to Clinton over Jewish settlement

By Avi Machlis in Jerusalem and Mark Huband in Cairo

Mr Yassir Arafat, the Palestinian Authority president, will today ask US President Bill Clinton to exert pressure on Mr Benjamin Netanyahu, the Israeli prime minister, over Israel's plans to build a new settlement in east Jerusalem.

Mr Arafat will appeal to Mr Clinton "to intervene personally to get Mr Netanyahu to revoke his decision", according to Mr Saeb Erekat, the chief Palestinian peace negotiator.

"We feel Clinton is the only one who can save the peace process from collapsing if bulldozers take to the land on Abu Ghneim," Mr Erekat said. He was referring to the Arabic name of the hill upon which Israel last week approved construction of the Har Homa settlement.

During his US visit, Mr Arafat is also due to meet Mrs Madeleine Albright, US secretary of state, for the first time.

At the weekend, Mr Arafat told an emergency session of the Arab League in Cairo that Israel's decision would destroy the peace process. The Palestinian leader said he might unilaterally declare establishment of a Palestinian state in response.

Both Jerusalem's status and Palestinian statehood are on the agenda of final status peace talks scheduled for this month to address a list of disputed issues.

In a strongly worded statement, the Arab League condemned Israel's plans to build in east Jerusalem and asked the United Nations to force Israel to reconsider. Mr Arafat will visit the UN tomorrow in an effort to garner international support.

Palestinian leaders have warned construction of Har Homa could spark renewed unrest. But since Israel's decision last week, West Bank and Gaza streets have remained quiet as Palestinians await the outcome of Mr Arafat's US trip.

Mr Moshe Fogel, an Israeli government spokesman, said Israel did not intend to change its mind. "Israel's policy on Jerusalem may not be easy for them to swallow... but in the final analysis we're going to have to act on our convictions," he said.

Mr Netanyahu is expected to meet Mr Hosni Mubarak, the Egyptian president, in Cairo on Wednesday. It will be their third meeting since Mr Netanyahu became prime minister last year.

Brazil plans industry fund after sell-off

By Geoff Dyer in São Paulo

The Brazilian government will use half the proceeds from the sale of the mining group Companhia Vale do Rio Doce (CVRD), expected to be Latin America's biggest privatisation so far, to set up a fund for investing in strategic industries.

Analysts said the fund was an attempt to appease the considerable political opposition to the sale of the government's 51 per cent stake in CVRD, one of the world's biggest natural resources groups.

The finance ministry had been pushing for the entire expected $6bn debt. Some ministers had argued that the money from CVRD and other privatisations should be invested in domestic industry.

The rules for the new fund have yet to be decided, but Mr Antônio Kandir, planning minister, said investment would be directed at reducing Brazil's trade deficit, which reached a record $5.54bn last year and is expected to grow again this year. "We need to create more competitive conditions for Brazilian products," he said.

Mr Luiz Carlos Mendonça de Barros, president of the National Development Bank (BNDES), which is firmed that the government would maintain a five-year "golden share" in CVRD after the sale, which will allow it to veto change of ownership.

The BNDES is due to publish on Wednesday the tender document and minimum price for the sale of a 40-45 per cent stake in CVRD to a consortium of industry buyers in an auction scheduled for April. The rest of the government's stake will then be sold to employees and in domestic and international share offerings.

The sale of CVRD has become a key test of the Brazilian government's commitment to privatisation, always insisted the auction would go ahead, it has made a number of concessions to appease opposition.

Last month it announced creation of a joint venture between CVRD and the BNDES to develop potentially enormous gold and copper deposits in the northern state of Pará, giving each party 50 per cent of eventual profits, after leaks about the deposits had threatened to delay the privatisation.

Some Brazilian politicians fear that if CVRD is privatised, it will cease to perform its social role in the Brazilian economy of opening up some of the country's underdevel-

Chidambaram banks on growth

Indians wonder if his champagne budget will keep its fizz, writes Mark Nicholson

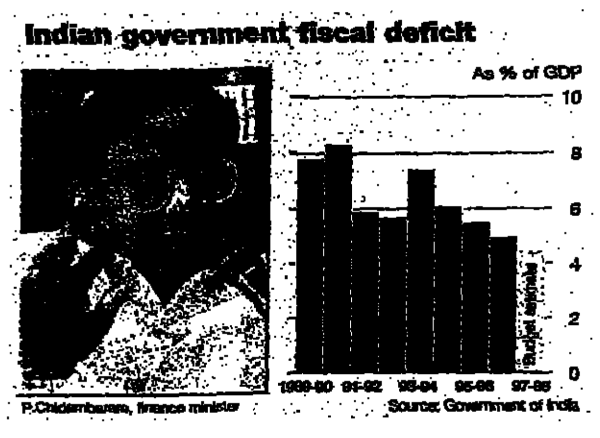
Shares have soared, corporate captains have applauded and India's business press has blazoned the words "watershed" and "historic" above analyses of Friday's tax-cutting budget from Mr P. Chidambaram, the finance minister. It was champagne and smiles all round from finance ministry officials, therefore, at a post-budget reception on Saturday night.

They have reason to be cheerful. With one tax-cutting stroke, Mr Chidambaram confounded low expectations of reforms from his fractious coalition government; he confounded, too, the United Front's political opponents.

By bringing tax reforms forward he has silenced an increasingly hostile opposition Congress party, whose former finance minister, Mr Manmohan Singh, launched the reforms process five years ago.

By promising more funds for farmers, more food and fertiliser subsidies and more money for rural credit and basic services, Mr Chidambaram has appeased the communist parties both within the coalition and supporting it from outside. By cutting corporate and income tax, he has stolen some economic clothes from the Bharatiya Janata party (BJP), India's most mercantile and urban party.

But whether the post-budget euphoria lasts depends on whether India's economy can respond to Mr Chidambaram's supply-side budget. The lower taxes must produce both a sharp kick to growth and a healthy broadening of India's narrow tax base.



P. Chidambaram, finance minister

The finance ministry believes it will, expecting India to follow three years of average 7 per cent growth in gross domestic product with a fourth. It also expects to keep inflation down to 6-7 per cent while also promising a further cut in the fiscal deficit, from this year's on-target 5 per cent of GDP to 4.5 per cent.

But senior officials accept it is a gamble. "Clearly there are risks, but clearly there are also opportunities," says Mr N.K. Singh, revenue secretary. "The deep cuts in the personal income and corporate tax are going to rebound in high growth and high revenue realisation in both short and long terms."

Taxes were cut across the board. The three income tax bands each fell by 10 percentage points to 10-20-30 per cent – a level Mr Singh says is close to their "resting point" and an overdue alignment with India's Asian neighbours.

Corporation tax was cut by an effective 8 points to 35 per cent. The maximum tariff came down to 40 from 50 per cent.

The intended result, says Mr Singh, is a net 16 per cent rise in tax revenues, with the haul from corporate tax seen rising 12 per cent, that from income tax 18 per cent, customs duties 20 per cent and excise duties 12 per cent.

To encourage compliance, meanwhile, the revenue department has offered a tax amnesty for India's tax-avoiding millions, provided they register as taxpayers before December 31. With the carrot of a limited amnesty period and the threat of the revenue department wielding a sharp stick next year, Mr Singh hopes within two years to double to 24m the dismally small number of registered taxpayers among India's 950m citizens.

But there are some concerns about the budget's ambition. One is over whether India can comfortably expect a fourth high-growth year.

Much will depend on a tenth successive summer of good monsoon rains sustaining agricultural output, seen growing at 3.7 per cent this year. It grew only 0.1 per cent the previous year, even with good rains. Much rests, too, on India's increasing infrastructural shortfalls not hindering industrial and manufacturing growth. As Mr Chidambaram noted, falling domestic oil production and a sustained crisis in electricity generation remain areas of "great concern".

Some economists also worry about inflation, which is currently 8 per cent. Finance ministry officials believe the budget will cool inflationary pressures, having introduced widespread duty cuts while pursuing further fiscal tightening. However, money supply is expanding by around 16 per cent, the effect of a January move to pump more money into the banking sector is still to work fully through the system and the government last week also raised rail freight rates by 12 per cent.

More significantly, the government apparently has no option but to raise controlled petroleum product prices, perhaps by up to 20 per cent, to clear a deficit approaching $4.4bn arising from its fuel subsidy policy.

However, Mr Chidambaram made no move either to raise petrol goods prices or to indicate plans to begin decontrolling fuel prices altogether. Indeed, Mr Manmohan Singh suggested that failure to move on oil prices showed that, the tax cuts notwithstanding, the budget had demonstrated that the government remained politically incapable of taking some remaining tough decisions.

Neither did the budget show great courage with regard to insurance liberalisation – on which the authoritative recent India Infrastructure Report argued the government should act with "some urgency" to help create the long-term funds needed to finance an infrastructure bill of perhaps $130bn in the next five years.

Mr Chidambaram has allowed only for minority foreign participation in private health insurance joint ventures in the face of resistance from the left to any such moves.

The move disappointed foreign insurers camped in India awaiting a bigger opening. "It's an extremely tiny opportunity," said one insurance executive. "Very few foreign international players would look at health insurance in a poor country like India."

Mr Chidambaram's rivals will wait to see whether his budget revives the "animal spirits" of Indian business, as hoped.

Indian shares surged in response to the country's budget statement on Friday, writes Tony Tassell in New Delhi. The BSE 30 index, the country's most prominent market indicator, rose 383 points or 11 per cent to 3,857 in frenetic post-budget trading sessions on Friday and Saturday. The index has now risen by as much as 42 per cent from a three-year low on December 20 of 2,713.

Brokers said the budget had surpassed all market expectations. They said broking houses were now upgrading forecasts for corporate earnings growth and year-end market levels in the wake of the budget. "The mood is very positive," said Mr V. V. Sivakumar, head of research at brokers Peregrine India.

Mr Sivakumar said the rally was expected to continue for the next few days, with many foreign investors returning to the market today. However, other brokers said the rally could meet increasing resistance.

Bangkok relents on refugees

By Ted Bardacke in Bangkok

Thailand has reversed its decision forcibly to repatriate thousands of Karen refugees after protests from the European Union, the US and the United Nations.

Last week after a meeting between Gen Chetta Thanajaro, the Thai army commander, and Gen Maung Aye, his Burmese counterpart, Thailand halted its decades-old policy of giving refugees from Burma safe haven along the 2,500km border between the two countries.

At least 900 Karen refugees, fleeing renewed fighting between Burmese forces and the rebel Karen National Union (KNU), were sent back to Burma within 3km of advancing Burmese troops. Thai military officials claim only those suspected of being KNU fighters were sent back into Burma but relief workers say boys as young as 10 years old were among them.

The EU, the US and the United Nations High Commissioner for Refugees all expressed their "regret" at the repatriation, prompting Bangkok to backtrack at the weekend.

About 90,000 refugees from Burma, mostly ethnic Karens and Mons, remain in Thailand, relief workers say. They will now be moved into camps away from the fighting, according to Thai officials. Thailand's refugee dilemma has recently become more acute as Burmese forces made several incursions into Thai territory to burn down refugee camps they accuse of harbouring KNU rebels.

Thailand has long used these camps as a buffer against the Burmese military. But Burmese officials have made it clear the camps must be eradicated as a prerequisite to improving relations between Rangoon and Bangkok.

Nevertheless, a decision on how to administer refugee camps deeper inside Thailand has yet to be made. Thailand has been reluctant to invite the UNHCR into the country for fear of causing a mass exodus from Burma less than a month after the last of tens of thousands of Vietnamese refugees had been sent back to Vietnam.

Nor has Thailand developed a coherent strategy for policing its side of the border. Previously, Thai officials have argued that, because the same ethnic groups straddle both sides of the border, it is inevitable that the demarcation line should remain porous.

Thailand used to turn a blind eye to KNU activities along the border, but Bangkok has now changed its attitude towards the rebel group, which is fighting for greater autonomy for the eastern Karen state.

The Thai army at the weekend unearthed a cache of KNU weapons at the Thai-Burma border and confiscated them, officials said.

The arms were believed to have been hidden by KNU guerrillas fleeing a Burmese army offensive earlier this month.

SE Asians to pursue plan for currency fund

By Ted Bardacke

South-east Asian finance ministers have asked the International Monetary Fund to present a formal proposal for a region-wide currency stabilisation fund. However, some countries in the region are already expressing reservations about expanding collective action to deter speculative attacks on their currencies.

The request came after Mr Michel Camdessus, IMF managing director, told the inaugural meeting of finance ministers from the Association of South-east Asian Nations (Asean), which finished at the weekend, that they should collectively prepare themselves better both to monitor currency movements and defend those currencies in the event of an emergency.

A $200m Asean Swap Arrangement, set up in 1977 and scheduled to expire in August this year, could form the backbone of a much larger currency protection scheme, Asean officials said.

Mr Camdessus suggested that Asean consider a mechanism similar to the $48bn New Arrangements to Borrow facility – to which 25 countries including Malaysia, Singapore and Thailand have agreed to contribute – approved by the IMF earlier this year.

As south-east Asian currencies gain favour among international investors taking advantage of high domestic interest rates, large and rapid capital inflows in the form of periodic speculative attacks have increasingly concerned monetary officials. With economic growth in some Asean countries slowing while their economies become more closely linked, some officials warn that a currency collapse in one country could affect the entire region.

So far Asean countries, along with other Asian neighbours such as Hong Kong and China, have spun a web of bilateral repurchasing agreements, a move Mr Camdessus supported.

The Philippines, with a comparatively low level of international reserves, and Thailand, the current target of currency worries, have access to $3.5bn each from their Asian neighbours in the form of bilateral agreements and are seen as receptive to a more formal regional currency defence mechanism.

But other Asean countries, especially those that face little danger of speculative attack, appear more reluctant, particularly as Asean is expected soon to incorporate countries such as Burma and Cambodia where economies are fragile and currency regimes undeveloped.

Mr Richard Hu Tsu Tau, Singapore finance minister, was quoted by AP-Dow Jones news agency as saying Asean's currency defences were adequate for now.

"The best defence against currency speculators is to have your fundamentals right," he said.

Asean finance ministers also signed a customs agreement which will harmonise customs procedures, product classification and tariff assessment practices within the region.

INTERNATIONAL NEWS DIGEST

China reduces bank taxes

China has reduced taxes on state-owned banks and insurance companies to 33 per cent from 55 per cent to bring them into line with taxes for foreign financial institutions. Chinese banks and insurance companies will also now pay tax at the same rate as other Chinese-funded enterprises, Mr Liu Zhongli, finance minister, told the annual parliamentary session.

Chinese banks had long complained they were at a disadvantage in competition with foreign banks. China's decision to allow a select group of foreign banks to engage in local currency business prompted the move.

Previously, foreign banks were restricted to dealing in foreign currency but now they will be permitted to compete on an experimental basis with domestic institutions. The trial programme will begin in Shanghai.

A western banker described the decision to lower the tax rate for domestic financial institutions as fair, and said it should further boost competition. China is under pressure from its trading partners to open further its services sector, a key element of negotiations on its entry to the World Trade Organisation. *Tony Walker, Beijing*

WTO progress for Taipei

Taiwan and its trading partners have reported good progress in talks on Taipei's entry to the World Trade Organisation. At a meeting on Friday of the WTO's membership working party, Mr Ke-Sheng Sheu, Taiwan's vice-minister of economic affairs, said bilateral talks on market access for imports had been completed with eight countries, including Australia, Japan and South Korea. Talks with the US, EU and others are continuing.

The working party meeting was the first since December 1994, and no date has been set for the next. This leisurely timetable reflects the fact that under a 1992 accord in Gatt, the WTO's predecessor, Taiwan cannot join the WTO before China. Talks on China's 10-year-old bid for membership resumed last week in Geneva, amid hopes that Beijing will come forward with new concessions. But even then most trade diplomats expect negotiations to extend to the end of the year or beyond.

Taiwan plans to introduce legislation this spring to make its trade laws compatible with WTO rules, and says it will join the WTO's government procurement accord and a planned deal to scrap tariffs on information technology products. *Frances Williams, Geneva*

New dawn in the east, Page 19

Six more join IT accord

The final obstacle to implementation of a global accord eliminating tariffs on information technology (IT) products was overcome at the weekend when Malaysia, Thailand and India said they would join the pact.

The three countries, all important IT exporters, bring the trade coverage of the Information Technology Agreement to over 90 per cent, the threshold stipulated for implementation when the pact was negotiated last December.

The three were among six new members that submitted their detailed IT tariff schedules to the World Trade Organisation by the deadline of midnight on Saturday. The others are Israel, Romania and Estonia. The accord now has 87 participants, including the US, Japan and the 15 European Union member states.

Members will meet later this month to bring the accord into effect. The first tariff cuts are due in July this year, followed by three more in January each year to 2000, though some developing countries have been given longer for certain products. *Frances Williams*

Brussels fish talks urged

European Union ministers for overseas development want Brussels to initiate talks with Japan, Canada and other large fishing nations to ensure that agreements reached with developing nations granting them access to local waters do not impede economic progress or aggravate poverty. Meeting in Amsterdam at the weekend, they acknowledged that the EU's own fisheries agreements with third world countries often created that danger.

"There is obviously a big problem there," said Mr Jan Pronk, Dutch development co-operation minister, who chaired the informal session. Mrs Emma Bonino, fisheries commissioner, insisted that more recent bilateral accords were of a "second generation based on partnership" and normally prevented EU trawlers entering the 12-mile zone within which local vessels fished coastal waters. Some older pacts were being renegotiated.

Madrid last week blocked access by South Africa to the Lomé trade convention because it would not grant a mainly Spanish EU deep-water fleet adequate rights to its fish stocks. *Gordon Cramb, Amsterdam*

Banking on the environment

Banks should develop a more harmonised and transparent approach to assessing environmental credit risks, and those which have not done so should adopt an environmental management system, according to a report published today.

The recommendations by Green Alliance, a London-based environmentalist organisation, are based on a survey of 16 of the 90 signatories to a United Nations statement committing banks to pay more attention to the environment. *Banking on the Future* says banks should collaborate to develop indicators of "good environmental performance" in areas of economic activity pursued by themselves and their clients. *Leyla Boulton, London*

Banking on the Future - a Survey of Implementation of the UNEP Statement by Banks on Environment and Sustainable Development, available from The Green Alliance, 49 Wellington Street, London WC2E 7BN. Tel 0044171 8360341

Central Asian leaders in concerted attempt to lessen ecological damage

Aid pledged for shrinking Aral Sea

By Charles Clover in Almaty

Central Asian leaders gathered in Almaty, the capital of Kazakhstan, last week in an effort to muster a concerted approach to the potential ecological disaster facing the Aral Sea.

The presidents of Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan pledged aid totalling 0.3 per cent of their annual fiscal budgets to the International Fund for Saving the Aral Sea, set up in 1993 to aid the afflicted region. In addition, the World Bank announced it planned to provide a total of $380m by the year 2000.

Around 3.5m people live near the Aral Sea, which straddles the border between Kazakhstan and Uzbekistan. The sea's volume has shrunk by three-quarters since the 1960s, when the government of the Soviet Union decided to increase cotton production in central Asia by diverting waters from the Syrdarya and the Amudarya, the two rivers which replenish it. Since then, the supply of water to the Aral Sea has fallen from 60 cubic km to 5 cubic km per year.

The water that does run into the Aral is full of fertilisers and chemicals from upstream agriculture. This, combined with the salinisation of water supplies, has increased rates of respiratory diseases as well as cancer and anaemia by as much as 600 per cent since 1960. One-third of the population around the Aral Sea suffers from anaemia.

Averting the catastrophe would require no less than structural change away from a reliance on cotton exports as a major source of hard currency. Compared with this, 0.3 per cent of the annual budgets of the five states, or roughly $35m per year, will bring slight relief.

In total, water-intensive cotton production brings billions of dollars of export earnings into the region. Cotton contributes half of Uzbekistan's $4bn annual exports and about one-fifth of Turkmenistan's exports of $2.5bn.

In addition, agreement on water in central Asia is complicated by the region's geography. As a result of borders imposed on the region by Soviet rulers in the 1920s, both the Syrdarya and the Amudarya snake through four of the five countries. This encourages each to grab as much water as it can get before their neighbours do.

The upstream countries of Tajikistan and Kyrgyzstan, from whose mountains the waters of the Aral Sea flow, use the rivers for hydropower and are not motivated to help the downstream countries, which use more of the water and which are more afflicted by the ecological catastrophe.

Mr Imomali Rakhmonov, the president of war-ravaged Tajikistan, said that 0.3 per cent of his budget was "too much" of a contribution.

Upon being elected by his colleagues as the new chairman of the International Fund for Saving the Aral Sea on Friday, Mr Islam Karimov, the Uzbek president, said that the chairmanship should be for three years. Other central Asian leaders took issue with this and it did not appear the matter had been resolved.

هكذا من الأصل

Setback for government in election run-up as minister contradicts official policy

Premier hit by Emu comment

By Robert Peston and Liam Halligan

The prime minister's hopes of keeping his party united over European monetary union in the run-up to the general election received a shattering blow yesterday when one of his senior ministers said sterling would not be joining the new currency at the 1999 launch.

Mr Stephen Dorrell, chief health minister, said in a television interview: "We shan't be joining a single currency on January 1 1999." Although this is in tune with the private views of most cabinet members, official government policy is that it is "very unlikely but not impossible" that sterling would join at that date. It was the first time a cabinet minster has ruled out membership in 1999.

Recognising the explosive nature of his statement, he immediately telephoned Mr Kenneth Clarke, the chancellor of the exchequer, to apologise. Mr Clarke is the government's staunchest champion of keeping open the option of joining the currency. Soon afterwards, Mr Dorrell issued a retraction through Conservative Central Office, the party headquarters. "I entirely agree with the government position and no words I used on the programme were intended to question it," he said.

Eurosceptic members of the governing Conservative party were delighted by Mr Dorrell's intervention. "This indicates a powerful hostility to the single currency, which is quite right," said Mr Bill Cash.

Mrs Edwina Currie, the pro-European former health minister, said she had "the feeling some of our cabinet ministers seem to have stopped thinking properly". She added: "If the single currency happens, and if it's well run, it's in Britain's interests to be part of it right from the start."

Given the opportunity to withdraw the remarks in the programme, Mr Dorrell first pointed to the difficulty of getting the necessary legislation through parliament on time and then said the prospect of joining was "vanishingly small".

Mr Dorrell's ambitions to succeed Mr John Major as Conservative party leader are likely to have been damaged.

It is the third time in recent weeks that he has appeared to depart from the official party line. Last month he indicated that a future Conservative government would abolish any new Scottish parliament created by the opposition Labour party if it wins the election. The official position is that such new constitutional arrangements would be "difficult to unscramble". He then appeared to contradict the pessimism of Mr Michael Heseltine, the deputy prime minister, over the prospects of winning last week's Wirral South by-election by saying it was winnable. Labour took the safe Conservative seat with an 8,000 majority.

Chancellor to signal no change to rates

By Peter Marsh in London

Mr Kenneth Clarke, the chancellor of the exchequer, will today signal that bank base rates are almost certain to stay unchanged in the sensitive period ahead of the general election, expected in May.

Pointing to benign inflationary pressures and the strength of the pound, Mr. Clarke will put the case for leaving rates at 6 per cent, in spite of calls in recent months from the Bank of England, the UK central bank, arguing for a monetary tightening to head off the risk of economic overheating.

The chancellor is due to meet Mr Eddie George, the Bank governor, on Wednesday for their monthly discussion on interest rates.

Economists believe there is virtually no chance that Mr George will persuade Mr Clarke of the necessity to tighten policy.

In a speech to the British Retail Consortium, the chancellor will say today the economy is progressing at a satisfactory rate, but that "the story is not 'boom boom Britain'".

He will say he is "reassured by the exceptional lack of inflationary pressures in the pipeline – from producer prices that are at their lowest since the late 1960s, to moderate earnings growth and [pay] settlement figures".

Also the recent strength of the pound and its effects on making UK goods less competitive in other countries is imposing a brake on the economy – another reason for inflationary pressures being muted.

Mr Clarke will say that talk of disagreements between him and Mr George over interest rates has been exaggerated.

In an effort to eliminate speculation that his main motivation prior to the election is not to upset voters with a rise in loan costs, Mr Clarke will argue that his rationale on monetary policy is purely economic.

John Cobb

David Taylor called for national targets for road traffic

Greens focus on being realistic

By Liam Halligan in Scarborough

There were flowers, woolly jumpers and pierced noses aplenty. But at the Green party's spring conference, which ended yesterday, there were also genuine ideas.

The UK Greens are not as strong as elsewhere in Europe, where they are present in 14 parliaments and three governments. The British party has never won a seat in the House of Commons and membership has dropped from 20,000 in 1989 to about 5,000.

But with a general election approaching, the party has begun to debate mainstream political issues. Ms Miriam Kennet, a member of the party executive, has been pushing the party "to think in terms which are both green and economically realistic".

Top of the bill was transport. Mr David Taylor, principal party speaker, called for more public transport, higher petrol taxes and targets for road traffic.

UK NEWS DIGEST

Merrill chooses City for HQ

Merrill Lynch, the biggest US brokerage house, appears set to spend more than £200m ($324m) on building a new headquarters building in the City of London, rather than move to the Docklands district to the east. The company insisted yesterday that it had still not made a final decision, but it is believed that it will opt to move from Ropemaker Place to the site of the former Post Office headquarters in King Edward Street in the City.

"No decision has been made and we continue to explore all our options," said the company. Merrill is also thought to have been considering sites in the capital's former Docklands, including at the big Canary Wharf complex which was rescued from administrative receivership last year. Office rents recently have been rising in Docklands, where an extension to the Underground railway is due to open next year. The line will radically improve communications to Docklands and has encouraged several high profile lettings at Canary Wharf, including a decision by Citibank to consolidate its operations in a 50,400 sq m building. Other recently announced moves to Canary Wharf include BZW taking 62,550 sq m to house its 4,000 staff. *Christopher Adams*

■ CENTRAL BANK

New money market system begins

The Bank of England, the UK's central bank, today begins its new operations in the way it intervenes in the UK's money markets to set interest rates and to supply liquidity to the clearing banks. The new system – the biggest change to the Bank's money markets operations for more than 100 years – severs the Bank's exclusive link with the City of London's discount houses.

It will broaden the range of parties with which the Bank trades debt to include banks and securities firms and will widen the type of eligible debt instruments. The aim is to make UK money markets less volatile and more attractive and allow interest rate changes to be transmitted more effectively across the economy.

The Bank's move also brings the UK into line with other EU countries such as Germany. Interest rate setting for the single European currency would almost certainly be based on the new system. *Graham Bowley*

■ CITY CENTRES

EU urged to aid Coventry project

The European Union is being urged to finance an experiment on using the private sector to maintain Britain's city centres. A pilot project in Coventry, in the English Midlands, could bring closer the prospect of US-style Business Improvement Districts (Bids) – where compulsory levies on property owners are used to supplement public services.

An EU decision on an application by Coventry's municipal authority for Ecu6m ($6.8m) over three years to fund the experiment is likely at the end of this month. The Corporation of London, the municipal authority for the City, is urging the government to allow experiments with US-style Bids in the UK. *Alan Pike*

■ FEMALE MANAGERS

'Old boys' network still a barrier

The "old boys network" remains the single biggest career barrier for female managers, even though its influence on them is diminishing, according to a wide-ranging survey of management attitudes published today. "The right school tie, university or club still seem to play their part in the male managerial world, while the glass ceiling has not yet been shattered for women," says the study, commissioned by the Institute of Management.

The most common obstacle faced by the women who took part in the study of 1,800 managers was the existence of informal male clubs, followed by the "prejudice of colleagues". The study suggests that attitudes have shifted significantly since 1992 when a similar survey concluded that "women were not readily acknowledged to be equal partners in the workplace". The proportion of women who cited the "old boys network" as a problem has fallen by 5 percentage points to 38 per cent. *Vanessa Houlder*

Management, Page 10

■ PENSIONS

Guaranteed payout discussed

Thousands of victims of the long-running debacle of improperly sold personal pensions could get guaranteed retirement benefits under proposals being discussed by top UK insurance executives. Victims would be guaranteed the same final payout from their personal pension as they would have received from the occupational scheme they left. The proposals are the first that would assure up to half a million victims that they would suffer no financial loss for opting out or transferring from their occupational schemes in the late 1980s and early 1990s. The scheme would also give the life assurance industry time to sort out the wrangle which is likely to cost up to £4bn ($6.5bn). *Christopher Brown-Humes*

هكذا من الأهل

NEWS: UK

Traders may risk more than their employers want, a report says

Bank attacks big bonuses

y George Graham,
anking Correspondent

adly structured bonuses may be encouraging traders in financial markets to take more risks than their employers want, a study from the Bank of England, the UK central bank, warns today.

The report in the Bank's *Financial Stability Review* warns that large, variable bonuses which depend on some measure of performance can become a one-way bet for traders, who win if they make lots of money for the business but do not have to pay out themselves if they lose money.

"Employees' contracts almost always involve limited liability; they may share profits from favourable trading outcomes, but it is difficult or impossible to make them compensate their employers for losses," says Mr Daniel Davies, an economist in the financial structure division of the Bank.

"The highest bonuses usually go to 'stars', who may feel compelled to justify their status by taking greater risks in the hope of making higher and higher profits," Mr Davies says.

Regulators have voiced concern in recent years as pay packages in the City of London have escalated. They worry that traders may see a perverse incentive to gamble more of their employer's money.

Special concern has been voiced about guaranteed bonuses, in which reward is not even dependent on performance, which can build up a high cost base that is less flexible than it seems.

In an accompanying editorial, which is widely taken to reflect the Bank's own thinking, the review says financial institutions' reliance on the individual skills of their workforces has prompted regulators to pay more attention to "intellectual risk" – the danger that a specialist team might depart en bloc, forcing the bank to stop dealing in that product or put less experienced staff in the frontline.

Mr Davies, who draws on research carried out with Dr Margaret Bray of the London School of Economics, warns that employees who know their particular skills are in heavy demand may be particularly tempted to gamble: the upside is a huge bonus and the downside at worst dismissal, scarcely a threat when they can easily find a job with another bank.

An employee who is underperforming and therefore at risk of dismissal may also be tempted to double up his bets.

Mr Davies says: "A culture in which it is regarded as acceptable to lose money once in a while (something which is almost inevitable if markets are efficient) may mitigate pressures to take excessive risks."

Editorial Comment, Page 19
Lex, Page 20
Wall Street bonuses, Page 21

City maths gets out of hand

NatWest's $81m financial 'hole' points up the dangers of options trading

Bankers have had to brush up on their mathematics to cope with the implications of financial options and similar derivatives for their trading books.

National Westminster Bank's discovery of a £50m ($81m) hole in its interest rate options book served as another reminder that behind the sophisticated calculations lie a number of assumptions which can lead to significant pricing errors.

NatWest Markets, the investment banking division headed by Mr Martin Owen, last week announced a 52 per cent increase in profits to £462m in 1996. The announcement late on Friday, which will mean a £50m charge in the first half of this year, has taken some of the shine off that performance.

The setback is embarrassing for NatWest Markets, which has been expanding rapidly through acquisition and internal growth.

Besides reinforcing its mergers and acquisitions capability with the acquisition of two corporate finance boutiques, Gleacher and Hambro Magan, in New York and London, NatWest Markets also paid $590m last June for Greenwich Capital, a US fixed interest trading operation.

The interest rate options unit in which the pricing errors have been discovered now comes under the management of Mr Chip Kruger and Mr Gary Holloway, Greenwich's heads.

There is no suggestion, however, that it was Greenwich's new broom which uncovered the problems.

In its simplest form, an option is a contract that gives its purchaser the right to buy or sell some specified asset, such as a share or basket of shares, at a set price. If the price of the asset never reaches the level set by the option, the purchaser does not have to use the right to buy or sell.

For the buyer of the option, the risk is limited, but the seller is taking an open-ended bet.

Setting a price that will cover the risk involved requires a complex formula based, in its simplest form, on five elements. The first two of these – the time until the option matures and the strike, or price at which the option can be exercised – are set out in the contract. Two other elements – the price of the underlying asset and the annual interest rate – can be fairly easily determined from the market.

The fifth element, however, is the volatility of the asset, and that can only be estimated. "Options are tricky. It is a three-dimensional problem with so many parameters that it is sometimes difficult to get it right," commented a trader at one rival bank.

With more complex derivatives such as interest rate caps and floors, which behave in some ways like a series of options strung together, estimating volatility can be more difficult.

Most banks trading interest rate caps price them using a volatility curve, with a higher rate of volatility applied at the beginning of the contract.

Banks which traded with NatWest said it priced interest rate caps using a single average rate of volatility across the lifetime of the cap. That tended to result in its overpricing contracts where the strike price was set high, and to undervalue contracts where it was set low. Many banks admit that their senior managers have great difficulty understanding the science involved in volatility.

"Delta [the rate at which an option's price changes in relation to the price of its underlying asset] is bad enough, but when you add in gamma [the rate at which the delta changes in relation to the price of the asset] it turns into ancient Greek for some of our older members," said one banker.

When the consequences of not understanding can turn out to be a £50m hole in a bank's books, the incentive to learn Greek becomes considerable.

George Graham

Report, Page 21

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Aberdeen 10.8% Rd 2011 £5.40
Assoc British Foods 5.25p
Barclays Non-Cm $ Pf Ser C1 $0.4219
Do C2 $0.1406
Do D1 $0.4313
Do D2 $0.1437
Do Units $0.5625
Do D Pf Units $0.575
BP America 9¾% Gtd Nts 1999 $487.50
Brasway 0.31p
Britannia Bldg Scty 10½% Bd 2000 £1050.0
British Airways 10% Bd 1998 £100.0
Brunel 0.5p
Conversion 9% 2000 £4.50
Dewhurst 1.8p
Do A N/Vtg 1.8p
Dixons 2.4p
Enserch $0.05
First Technology 4.2p
Fleming Claverhouse Inv Tst 2.2p
Fletcher King 0.5p
Fuji Bank Int Fin Und Gtd Var Rate Nts $1575.0
Grainger Tst 5.38p
Halifax Bldg Scty 10⅝% Nts 1997 £103.75
Hardys & Hansons 6.8p
Hyder 14.6p
Ingersoll-Rand $0.205
Int Bank for Reconstruction & Devlpmnt 10% Bd 1999 £100.0
Italy 9⅝% Nts 1999 $962.50
Kewill Systems 3.6p
Kuala Lumpur Kepong M$0.10
Kunick 0.4p
Mazda Motor 6.4% Bd 1999 Y640000.0
Do 6.4% Bd 2000 Y640000.0
Murray Emerging Economies Tst 0.4p
Raglan Estates 10¼-11¼% Stppd Int 1st Mtg Db 2012 £5.625
Richards 0.93p
Royal Bank of Scotland 6⅝% Bd 2004 £66.25
Do 10½% Sb Bd 2013 £1050.0
Swis Bank Var Rate Sb Nts 2004 L600000.0
Thames Invs (No 2) One-way FRN 1997 $307.87

■ **TOMORROW**
Abbey National Treasury Gtd Tec 10 Indexed FRN 2006 FFr117.25
Guaranteed Export Fin 9¼% Gtd Bd 2008 £925.0
H & C Furnishings 2p
Masthead Insurance 1p
Southern Elec 12.9p
Sweden 6½% Nts 2003 $32.50
Whittard of Chelsea 1p

■ **WEDNESDAY MARCH 5**
Aberdeen Tst 2.2p
Angerstein Underwriting 1.2p
Finland 10⅛% Bd 1997 £101.25
Gillette $0.18
Gold Fields of South Africa R0.80
Guaranteed Export Fin 7⅝% Gtd Nts 1997 $762.50
Int Greetings 6.5p
JIB 5p
Jardine Lloyd Thompson 6p
Kelsey Inds 18p
Mitsui Fxd/FRN 1998 Y1038945.0
Wood (John D) 1.25p
Zetters 5p

■ **THURSDAY MARCH 6**
Bank of Greece 10¾% Ln 2010 £5.375
British Gas Int Fin 6¾% Gtd Bd 1997 $67.50
Carclo Eng 3.44p
Cardiff Property 1.95p
Dares Estates 8% Un Ln 1992/97 £4.0
Halifax Bldg Scty FRN 1999 £157.19
Irish Permanent Treasury Gtd FRN 1997 £160.81
Sainsbury (J)(CI) 8½% Cv Cap Bd 2005 £212.50
Sira Business 0.0228p

■ **FRIDAY MARCH 7**
Aberforth Smaller Co's Tst 3.85p
Aberforth Split Level Tst 2.25p
Do Units 2.25p
Boeing $0.28
Channel Hldgs 0.55p
EMI 8p
Fenchurch 2.75p
Firth Rixson 1p
Funding for Homes 10⅛% Db 2018 £5.0625
Hydro-Quebec 9% Db Ser HT Mar 2001 $450.0
Matrix Healthcare 3p
Safeland 0.93p
Scottish Power 6.17p

■ **SATURDAY MARCH 8**
Treasury 7¼% 2006 £3.875
Treasury 10% 2003 £5.0
Framlington Inc & Cap Tst 1p
French 2.25p

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Barr (AG), Breckenridge Road, 274, Sauchiehall Street, Glasgow, 11.00
BOARD MEETINGS:
Finals:
Alizyme
Avonmore Foods
British Polythene
Cementone
Fidelity European Values
HSBC
Inspec Group
Lilleshall
Millennium & Copthor
Page (Michael) Group
Perkins Foods
Vanguard Medica
Interims:
Brunel Hldgs
Brunner Mond
Close Brothers
Cornwell Parker
European Leisure
Hays

■ **TOMORROW**
COMPANY MEETINGS:
Kelsey Industries, Kelsey House, Wood Lane End, Hemel Hempstead, 11.00
Grand Metropolitan, Grosvenor House, Park Lane, W., 11.15
Mountcashel, Grant Thornton House, Melton Street, Edinburgh, 10.00
BOARD MEETINGS:
Finals:
Applied Distribution
Canadian Pizza
CRH
Epwin Group
General Accident
Holliday Chemical Hldgs
Kerry Group
Pendragon
Serco
Smith & Nephew
Thistle Hotels
Transport Dev Group
Waste Recycling Group
Wyevale Garden Centres
Interims:
Lyle (S)
Mucklow (A&J) Group
Pacific Horizon Inv Tst
Raine
Wetherspoon (JD)

■ **WEDNESDAY MARCH 5**
COMPANY MEETINGS:
Cardiff Property, 56, Station Road, Egham, Surrey, 12.00
Countryside Properties, The Brewery, Chiswell Street, E.C., 10.00
Crabtree Group, Kingsway, Team Valley, Gateshead, 12.00
Holmes & Marchant, Brands House, Kingshill Road, High Wycombe, Bucks, 10.00
Inn Business, 29, GreshamStreet, E.C., 12.00
BOARD MEETINGS:
Finals:
Associated British Ports
B.A.T. Inds
BICC
BWD Securities
Cadbury Schweppes
HTV
Metal Bulletin
Parity
T&N
Interims:
Finelist Group
Jos Hldgs
Scottish Asian Inv Tst

■ **THURSDAY MARCH 6**
COMPANY MEETINGS:
Hawtin, Copthorne Hotel, Cardiff, 11.00
New Zealand Inv Tst, The Chamber of Shipping, 12, Carthusian Street, E.C., 12.00
Quality Care Homes, 18, St Cuthberts Way, Darlington, 12.00
BOARD MEETINGS:
Finals:
Argo Wiggins Appleton
BTR
Clarke (T)
Cookson Group
GKN
Glaxo Wellcome
Hambro Countrywide
Hillsdown Hldgs
Kode Intl
Ladbroke Group
Mallett
More Group
Mowlen (John) & Co
Ocean Group
Rolls-Royce
Royal & Sun Alliance Ins
Shoprite Group
Interims:
Brierley Inv Tst
Galliford

■ **FRIDAY MARCH 7**
COMPANY MEETINGS:
Lazard Birla India Inv Tst, 21, Moorfields, E.C., 12.00
Scottish Highland Hotels, Carlton Highland Hotel, North Bridge, Edinburgh, 11.00
South Country Homes, 37, Ixworth Place, S.W., 9.00
BOARD MEETINGS:
Finals:
Cookson Group
Greggs
Group Tst
Litho Supplies
Torex Group

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent annoucements.

A city fighting to save its soul

DATELINE

Bonn: once described as "larger than Chicago's cemetery, but quieter", the city is changing, writes **Ralph Atkins**

If Berlin is Europe's biggest building site then Bonn, the soon to be supplanted federal capital of Germany, is unabashed. The small Rhineland town, once dismissed by an American as "larger than Chicago's cemetery, but quieter", is in the midst of a disruptive redevelopment programme that will last beyond the move of the seat of government, currently expected in mid-1999.

In Bad Godesberg, Bonn's compact spa-town suburb whose villas are prefered by diplomats, an unscientific survey over recent days suggests the "crane count" per head of population is at least as high as that of Berlin.

A concrete tunnel is being driven under the centre to speed traffic to Koblenz and up the river. Above, traffic has to weave through the heavy plant constructing a multiplex cinema which, according to Bärbel Dieckmann, the city's mayor, "will bring normal life to Bad Godesberg".

But Bonn (population: 310,000) is hardly preparing for life as a backwater. Somewhat shocked 48 years ago to find itself transformed from a small university town into the federal capital of what became Europe's strongest economy, it is hesitant about relinquishing its special role in federal Germany.

Part of the reluctance is selfish. Bonn, twinned with Oxford in the UK, has a dreamy pretentiousness. It is a village stuffed with political thinkers and diplomats, their deliberations muffled to the outside world by the quiet misty Rhine air.

"You know what they say about Bonn," wrote spy novelist John le Carré. "Either it rains or the level crossings are down. In fact, of course, both things happen at the same time . . . It's a very metaphysical spot; the dreams have quite replaced reality."

But there is also a strong feeling that the choice of a small town in Germany as the federal capital contributed to Germany's post-war economic and political success.

Not only is the "Bonn republic" a rare example of stable, democratic German government, but "Bonn politics" has encouraged consensus and the pooling of ideas, even if tortuous policy debates often end with messy compromises.

Bonn provides no grand stage on which political egos are indulged. Walk a little way from the parliamentary building and you are among suburban houses. The foreign ministry could be mistaken for a large school, if there was not a nearby underground station that took its name. There are frequent police convoys escorting federal ministers and foreign visitors.

But traffic is as likely to be delayed by a farm tractor, recalcitrant toddler or slow-moving digger. "There is no power politics, it's not aggressive towards neighbours," says Mayor Dieckmann.

A desire by that country's politicians to preserve the strengths of "Bonn politics" explains why, after the transfer to Berlin, the city will become Germany's "federal city". This is no sop. As the date of the move approaches, efforts are intensifying to ensbrine Bonn as Germany's second political centre.

A number of ministries will remain in there, including defence, environment, health, agriculture and the ministry for economic co-operation and development.

A fair chunk of the diplomatic community will also stay, and not just agricultural or defence attachés. Many third-world countries' embassies will want to remain close to the development ministry, which is an important source of financial aid. Other ministries will keep the largest part of their workforces in Bonn.

Meanwhile, some state organisations are moving in from Berlin, Frankfurt and other cities, including the federal cartel office and federal audit office. Overall, the Bonn administration reckons that the net loss of federal government jobs will be a modest 15,000.

Nevertheless, Bonn's Social Democratic/Green coalition government is anxious to find new roles for the city, conscious perhaps of becoming merely Berlin's back office. The aim is to become a futuristic international, media and science city. A DM2.8bn (£1.02bn) compensation budget, funded by the federal and state governments, will help, among other projects, with a planned high-speed rail link to the airport Bonn shares with Cologne.

Ambitions have had to be scaled back a little. Bonn has failed to persuade any great world organisation to move there – although the United Nations Volunteers programme has come from Geneva – but the headquarters of Deutsche Telekom, Europe's biggest telecommunications company, is on its doorstep with the prospect of spawning other media companies.

Already, buildings are being reallocated: the ministry for economic co-operation and development is moving into the chancellor's department and federal auditors will have the run of the foreign ministry. The Bundestag building will become a much-needed conference venue. Perhaps the villas of Bad Godesberg will be home to cyberspace executives.

To outsiders it all seems fanciful. Without the politicians, journalists and many of the diplomats, Bonn may lose its soul. The small-town feel might become inescapable. But preparations for 1999 are being carried out with a thoroughness that suggests Bonn cannot yet be consigned to the history books.

The Monday Profile: Jürgen Dormann, Hoechst

The right chemistry

It is a Wednesday morning, and a lone figure walks the hills above Frankfurt, plotting evolution. Jürgen Dormann, chairman of Hoechst, Europe's largest drugs and chemicals company, is in the process of dismantling his empire: a process that requires a formidable imagination.

"He has opened the door for the rest of the chemicals industry with the ingenuity of his solutions," says one London-based chemicals analyst. But then brokers' analysts tend to be Dormann fans. His competitors are less enthusiastic, reflecting the fundamental nature of the problem Dormann is addressing.

Chemical companies have grown up as conglomerates, fuelled by a flow of inventions from their science laboratories that has been dictated by the inventive muse rather than commercial logic. Each product served different markets, be it farmers, doctors or manufacturers. As a result, management issues conflicted and information needs were rarely complementary. This disparity only got worse as some products matured into ex-patent commodities while others were replaced by next-generation high technology.

Dormann is now unbundling these unrelated businesses. This amounts to more than a complex carve-up: he is turning the culture of the chemical industry on its head.

During the next few months, Hoechst will complete its division into more than 13 separate companies. A strategic management holding company will own six outright, and a stake in the remainder. Some or all of these companies will be launched on the stock market. Dormann is clear: "This is just the first step."

He is confident he has found a way of dividing Hoechst without incurring the huge tax bill that German law would normally impose on such a break-up. Step two is about a year away, he says. He will not reveal more.

But as the chemicals industry waits in suspense, the initially large camp of Dormann sceptics – inclined to dismiss him as a big talker, and a deft manager of information – is shrinking. Immediately after his appointment as chairman, three years ago, Dormann replaced the company's German board with an international one, encompassing American, Brazilian and French directors. He also started cutting costs, brutally.

Next, the group's difficult businesses were shared with other companies. Textiles dyes went into a joint venture with Bayer; the bulk plastic polyethylene with BASF, and polypropylene with British Petroleum. Under his most recent deal, Hoechst will relinquish control of its least profitable business – speciality chemicals – and eliminate DM3bn (£1bn) of debt in the process. Clariant of Switzerland is to take both the business and the debt.

Meanwhile, the group has spun off SGL Carbon, a maker of electrodes, on the New York market; sold its cosmetics businesses; acquired Marion Merrill Dow, the US drugs company; the outstanding minority stake in Roussel Uclaf, the French drugs company; and so on. And at every turn it is playing outside the German code of custom and practice.

It has linked executive salaries to its share price and become acutely dedicated to managing that price upwards. The next move will be its own New York listing, which will raise no new capital but will make Hoechst shares "more available", says Dormann.

The chairman is an arts and social sciences man. Indeed, his early years of adulthood featured a protracted period as an undergraduate, studying history, music and obscure literary courses, until his family started to grow. Then a dash through economics clinched his degree and landed him a job with Hoechst that saw him through the raising of four children.

The company has always played second fiddle to his family, he claims. This is not to say he does not love his job. But he has never been "willing to be eaten up by the company".

However, far from lessening his dedication to resolving Hoechst's problems, this attitude seems to have made him more intolerant of the group's inherent inertia.

Slight and physically unprepossessing, he seems far younger than 57, but his piercing gaze reinforces his image as an intimidating intellectual. He had worked out what needed to be done at Hoechst years before his elevation to the post of chairman, he says, which was immensely frustrating.

Bar-talk within the chemicals industry has it that Dormann is focusing on Hoechst' share price as a precursor to his main ambition: chairmanship of a German bank. He laughs. And indeed it is possible that when he has reshaped Hoechst, he will retire into obscurity. But he is still setting aside half a day a week to walk those hills – and think.

Jenny Luesby

FT GUIDE TO:

CLONING

Why has Dolly the sheep caused such a fuss?
Because she is the first mammal to have been cloned from an adult cell. Until Ian Wilmut and colleagues at the Roslin Institute, Edinburgh, announced their breakthrough in last week's Nature, scientists had only succeeded in creating clones from embryos.

They are concentrating on animal breeding, but most of the worldwide uproar about their work has been triggered by fear that others will use a similar technique to clone human beings.

How easy would it be to create a clone from an adult human?
No one knows. Until last week, most scientists believed it would be impossible to clone any sort of adult mammal, because the DNA that carries its genetic blueprint cannot guide the development of an embryo more than once. The existence of Dolly proves them wrong and shows that in principle human cloning is possible.

But many experts believe there are huge technical obstacles in the way of applying the technique to people.

For example, cells begin to develop specialised functions more quickly in a new human embryo than in a sheep – giving the adult DNA less time to take charge of the development process.

What's so frightening about clones anyway?
Nothing. Identical twins are clones, resulting from the natural division of newly fertilised eggs. Of course, a child cloned artificially from an adult would be very similar to the original, sharing the same DNA, but – disregarding the obvious age difference – they would be less identical than a pair of twins.

Remember that genes only determine part of your identity. The rest comes from the environment. A shared womb gives identical twins a similarity that could never be achieved with different-generation clones.

Are you suggesting that all the fear and loathing triggered by Dolly is misplaced?
Some of it is. The news has re-awakened science fiction horrors from earlier this century, of cloned Hitlers and armies of cloned slaves serving evil empires.

In fact, the technique is unlikely to be suitable for mass cloning, because it is extremely inefficient. The Roslin team had to carry out almost 300 fusions of mature DNA from udder cells with unfertilised sheep's eggs to obtain one cloned lamb, Dolly.

But she's just the start. Won't scientists improve the success rate quickly now that they know the cloning works?
No doubt it will improve but there are technical reasons why it is likely always to be low. After all, conventional in-vitro fertilisation with normal sperm and eggs has less than a 20 per cent success rate after 20 years of clinical development. The words "cloning from adults" somehow suggest a short-cut in the production process, but it will always require a full nine-month pregnancy to deliver a cloned baby.

Even if you dismiss sci-fi horror scenarios, the idea of vain, rich individuals trying to clone themselves remains repellent.
Yes, it would certainly be against the "natural order of things". And in the UK, at least, it would be illegal.

A more practical objection is that someone created by cloning might be at greater risk of developing disease. Although Dolly seems healthy so far, she is still young. Biologists fear that a human created from adult DNA – which would inevitably have been damaged to some extent over the donor's lifetime – might age more rapidly or suffer more degenerative disease than normal. It would certainly be unethical to clone a human being under those circumstances.

Can you see a time when human cloning is ethically acceptable?
Attitudes to new biological technologies do change over time. Remember the outrage surrounding the first heart transplants in the 1960s and the first test-tube babies in the 1970s. Now transplants and in-vitro fertilisation are routine.

Human cloning is unlikely to be accepted so quickly, because the opposition is stronger and the medical uncertainties greater. But if scientists can prove that the technique is safe for the cloned baby, it might eventually be regarded as a reasonable last resort for people who cannot have children any other way. Biotechnology offers more frightening possibilities than cloning.

OK, terrify us then.
Cloning is a conservative technology; it tries to recreate what already exists. In contrast, genetic engineering gives combinations of genes that never existed in nature.

Scientists have been injecting foreign genes into animal embryos for more than 10 years, creating new strains with characteristics that make them more desirable for agriculture or medicine (as living factories to produce human drugs).

No one has admitted carrying out such an experiment on human embryos but it would technically be feasible today. In 20 or 30 years, when the genetic combinations that tend to make people more intelligent or athletic or attractive are known, the prospect of adding those qualities to future generations may seem irresistible. The fuss about cloning will then look like a minor sideshow.

Clive Cookson

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 02.03.97: Pool purchase price £/MWh	Final Prices for Trading on 02.02.97: Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.71	11.67	11.67
0100	28.93	23.69	25.83
0130	46.01	23.69	25.83
0200	46.01	23.69	25.83
0230	46.01	23.69	25.83
0300	20.92	23.69	25.83
0330	18.23	23.69	25.83
0400	18.23	23.69	25.83
0430	11.71	13.01	15.15
0500	11.70	11.67	13.81
0530	11.70	11.70	11.70
0600	11.70	11.70	11.70
0630	11.68	11.69	11.69
0700	11.70	11.69	11.69
0730	11.70	11.68	11.68
0800	11.65	11.67	11.67
0830	11.63	11.66	11.66
0900	11.65	11.67	11.67
0930	11.70	11.68	11.68
1000	11.65	11.69	11.69
1030	15.27	12.33	14.47
1100	21.67	13.01	15.15
1130	21.67	16.56	18.69
1200	21.67	16.56	18.69
1230	35.14	31.09	33.22
1300	35.14	31.09	33.22
1330	25.26	16.56	18.69
1400	11.71	16.56	18.69
1430	11.70	13.57	15.71
1500	11.68	13.57	15.71
1530	11.68	13.57	15.71
1600	11.68	11.72	11.72
1630	11.71	11.72	11.72
1700	11.71	12.00	12.00
1730	25.26	35.69	37.83
1800	25.26	40.80	42.94
1830	43.83	40.80	42.94
1900	43.83	40.80	42.94
1930	43.83	40.80	42.94
2000	26.37	24.88	27.02
2030	26.74	24.88	27.02
2100	25.26	23.56	25.70
2130	24.27	13.57	15.71
2200	23.86	13.57	15.71
2230	20.62	11.72	11.72
2300	20.62	11.72	11.72
2330	11.71	11.70	11.70
2400	11.70	11.67	11.67

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £15.86/MWh becomes 1.586p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone [illegible] between 8.30am and 5.00pm Monday to Friday. ©Energy Settlements and Information Services Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 03.03.97: Pool purchase price £/MWh	Final Prices for Trading on 03.02.97: Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.71	11.70	11.70
0100	20.62	13.57	15.33
0130	32.38	13.57	15.33
0200	32.98	13.57	15.33
0230	20.62	13.57	15.33
0300	32.98	24.89	26.65
0330	32.98	24.89	26.65
0400	15.27	13.57	15.33
0430	15.27	11.80	11.80
0500	15.27	12.00	12.00
0530	11.65	11.67	11.67
0600	11.65	11.67	11.67
0630	11.69	11.67	11.67
0700	20.74	35.00	35.00
0730	22.73	36.77	38.54
0800	22.73	36.77	38.54
0830	23.08	27.15	28.92
0900	33.83	32.57	34.34
0930	35.01	36.81	38.59
1000	42.69	36.92	38.71
1030	42.69	36.95	38.75
1100	33.84	36.97	38.77
1130	33.84	37.00	38.81
1200	33.84	37.03	38.85
1230	33.84	72.65	74.47
1300	23.18	72.62	74.43
1330	23.17	36.94	38.73
1400	23.17	36.92	38.71
1430	23.17	36.82	38.59
1500	23.17	36.81	38.58
1530	23.17	36.82	38.60
1600	23.18	37.01	38.87
1630	23.19	43.96	45.73
1700	33.78	49.08	54.86
1730	33.83	74.56	81.38
1800	38.12	74.41	80.89
1830	46.97	64.73	68.93
1900	52.35	51.03	53.37
1930	52.15	42.30	44.27
2000	46.59	37.41	39.23
2030	35.83	36.79	38.56
2100	33.73	36.78	38.54
2130	33.45	33.55	35.31
2200	33.45	27.15	28.91
2230	22.73	32.56	34.32
2300	20.74	18.12	19.89
2330	20.74	13.01	13.01
2400	11.69	12.00	12.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £15.86/MWh becomes 1.586p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone [illegible] between 8.30am and 5.00pm Monday to Friday. ©Energy Settlements and Information Services Limited

Stephanie Flanders · Economics Notebook

Rethinking the state

Advocates of the smaller state should think before they shrink

About the closest thing to a big idea in the Conservative party's election campaign so far is a promise to shrink the UK state. With public spending due to fall back to 40 per cent of gross domestic product next year, John Major, prime minister, promised last week that it would be a central aim of a fifth Conservative term to get the ratio even lower.

The UK is unique in having attributed a magical significance to the 40 per cent figure. But the equation of good government with small government is a global phenomenon. Even leftish politicians in the US and continental Europe have signed up to the mantra that a low tax, low public spending economy is a competitive one.

But to focus on the sheer size of government is to ignore one of the over-riding themes of 17 years of market reforms in the UK and elsewhere: namely, that what matters about a given chunk of public spending is not its size, but the way it is spent.

This sounds obvious. But it is striking how few of the proponents of smaller government bother to explain why they believe a large state is so harmful. The empirical evidence, certainly, is unpersuasive. As Richard Layard, at the London School of Economics, shows in a recent book, among Organisation for Economic Co-operation and Development countries there is no obvious correlation between the size of government and economic growth. More sophisticated attempts to get at this issue have also produced mixed results. The lack of an obvious connection does not mean the downsizers are wrong, but it does show that the "headline" size of government is not the real issue.

In 1979 real general government spending in the UK accounted for 42½ per cent of GDP, almost exactly the same as in 1995-96. But clearly the state then had a very different impact on the economy. Indeed, large chunks of industry were in the public sector. Roughly 30 per cent of the employed workforce was working for either central or local government or for a state-owned corporation, compared to about 16 per cent today.

Even in those sectors which have remained largely under state control, the government presumably believes that Conservative reforms have made them more competitive. It follows, then, that the 11½ per cent of GDP spent on public education and health next year will have a very different impact on national economic efficiency than the 11 per cent of GDP the government spent on them in 1979.

Ah yes, proponents of smaller government would reply. But even a very efficient public sector needs to be funded by tax revenues. And collecting taxes always carries a "deadweight cost" for output and efficiency by distorting people's behaviour. Ergo, countries with small governments will still do better than those where the state is large.

Yet here, too, the "small is beautiful" claim ought to come with two important caveats. First, just as the way governments spend their money matters, so does the way they raise revenue. In 1975, the combined revenues of personal income tax and value-added tax came to about 18 per cent of GDP, only slightly more than last year's total. But VAT has shot up in relative importance while personal income tax has fallen.

Economists would tend to argue that this has reduced the deadweight costs of the tax system. They like VAT because it is thought to create fewer disincentives to work than levying taxes directly on income. Equally, 1980s tax reforms ought to have made personal income tax more market-friendly, by eliminating the previous "penal" marginal tax rates on high earners.

The second, more important, caveat is a reminder that governments have rarely been in the business of "taxing for tax's sake". By and large, the goods which the state now provides are goods which people want. Satisfying that demand, in turn, brings economic benefits.

This is widely accepted when it comes to health and education. The debate about these sectors tends to revolve around how much health and education the state should pay for, not whether it should do so at all. But many other parts of the welfare state can also be defended on grounds of economic efficiency, not just an unfashionable desire for social justice.

As Hans-Werner Sinn, an economist at the University of Munich, argued in a recent article, both the welfare state and the redistributive taxation system needed to pay for it are good for the economy to the extent that they encourage people to undertake risky but profitable activities. The welfare state, on this view, is an insurance device. By reducing the variability of lifetime incomes, it insures people against the randomness in career opportunities and in the natural lottery of innate abilities.

As Sinn notes, to be equally effective a private insurance system would have to sign everyone up to a life-long commitment to the insurer from birth. "It would approximate bondage, a system long overcome by the course of history." Of course, the welfare state has drawbacks. Protecting people from dramatic swings in income can hurt efficiency, by encouraging them to take too many career risks; indeed, to drop out of working.

So we are back in the world of trade-offs. Somewhere along the continuum between a Stalinist welfare system and Hobbes' Leviathan will be a government which helps the economy more than it hinders it. But measuring the size of the UK state tells us very little about where the country stands on this continuum – or even the direction in which we should be heading.

A very cheap, but poorly designed, welfare system might have far worse disincentive effects than a more costly version. And one ill-considered regulation can cost the country far more in lost growth and efficiency than many of the public expenditure programmes listed in the Budget. Focusing on the size of the state rather than the underlying substance makes for better headlines. But it is a poor place to start in the search for better government.

Social Insurance, Incentives and Risk Taking, International Tax and Public Finance

هكذا من الأول

هكذا من الاصول

Old school tie loosens

Attitudes towards women managers are improving, writes Vanessa Houlder

For Gail Green, a sales operation manager, there were few surprises in today's report by the Institute of Management, which highlights the influence of the "old boys' network" on the careers of women managers in the UK.*

When she worked in the construction industry, she was often made to feel intimidated at meetings where she was invariably the only woman. At breaks, her colleagues would ignore her and get in a huddle to talk about golf. "The prejudice and chauvinism were horrifying," she says.

But it does not have to be like that. She has found that the culture of her current employer – Stena Lines, the Swedish travel company – presents no barriers to women's advancement. Except for a handful of male-dominated industries, life is generally getting easier for female managers, she thinks.

"Some areas of working life have come a long way," she says. "Things are so much better now than when I first started work. There are so many more opportunities."

Karen Charlesworth, author of the Institute of Management study, also believes that attitudes are changing for the better.

She was encouraged by the decline in women citing the "old boys' network" as a barrier, from 43 per cent in 1992 to 38 per cent. The proportion citing "prejudice of colleagues" as an issue fell from 35 per cent to 31 per cent.

Charlesworth points out that 23 per cent of men – and an even higher proportion of younger men – also see the "old boys' network" as a career barrier. "I get the feeling that age and seniority has as much of a part to play as gender," she says.

She suggests that one reason why women are less troubled by these constraints is that they have discovered the importance of networking for themselves. "They are beginning to appreciate there are more informal factors that play a role in success," she says.

Jane Parry, a small business manager at Barclays Bank who has set up Enterprising Women, a networking group for businesswomen, agrees. She thinks that women have, in the past, failed to see the value of devoting time to networking, given the other pressures on their time. But there is a growing realisation of its importance, she says.

Another encouraging sign of change, according to Charlesworth, was the relatively low profile of childcare issues in the survey. "Childcare issues, to an extent, have been tackled. It doesn't impinge on their [women's] working lives."

Not everyone agrees, however. The view of Opportunity 2000, the campaign to increase women's employment opportunities, is that although many leading-edge companies have introduced "family-friendly" initiatives, the majority of employers have not tackled these issues at all.

Moreover, the composition of the survey itself suggests that women's careers are affected by having a family. Only 21 per cent of the women managers surveyed had children under 16, compared with 43 per cent of men.

Gail Green thinks many women still have to make a choice between family and careers. "Men don't have that dilemma," she says. "They are not the main carers. It is still the women who have to make the sacrifice. That is why a lot of women like myself in high powered jobs choose not to have a family."

Given the challenge in combining work and family life, the progress of women in companies that attempt to be "family-friendly" tends to attract particular interest.

FI Group, the IT services company which sponsored the IM report, has an unusual perspective on this question because until the mid-1980s, the company only employed women. Under a new chief executive, it changed its recruitment policy and now has equal numbers of men and women.

It still has a large number of senior women managers however, which it partly ascribes to flexible working and its belief that working part time should not damage promotion prospects.

For Hilary Cropper, chief executive, one of the crucial findings of the study was that there were very few perceived differences in the behaviour of male and female managers. This tallies with FI's experience, she says. "We felt for a long time there were no appreciable differences in the way that men and women went about their jobs."

Cropper was also unsurprised by the huge gap that emerged between the attitudes of employees and their perception of their organisations. The majority of respondents described their own style as participative, but only 15 per cent of respondents said the same of their company culture. That accorded with her own experience in a previous job. "At the more senior levels I found that the organisation expected me to behave much more politically than I would have liked," she says.

But she draws encouragement from the findings that authoritarian styles were most prevalent among more senior, older managers. Attitudes may change as younger managers become more influential, she thinks.

Charlesworth also thinks that attitudes are changing. Her study showed that at the beginning of their managerial careers, 13 per cent of women claimed not to have encountered any barriers so far, compared with 8 per cent of junior male managers.

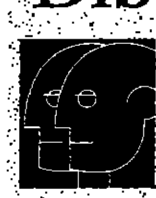
They expect to be seen as equal, says Charlesworth. "These young women take for granted their right to progress and compete with men, benefiting perhaps from the efforts of those women who have smoothed their way before."

**A question of balance? A survey of managers' changing professional and personal values, by Karen Charlesworth. Price £25 (IM members) and £50 (non-members) from the Institute of Management, 3rd Floor, 2 Savoy Court, Strand, London WC2R OEZ. Tel: 0171 497 0580*

Nigel Knowles (left) and Robin Smith: 'the client has one port of call'

PARTNERS

Dibb Lupton Alsop



Robin Smith, 53, joined the law firm, Dibb Lupton Alsop, in 1966. When the company merged with Sheffield-based Broomheads in 1988 Nigel Knowles, 41, a former associate at Broomheads, became a partner. Dibb Lupton Alsop have offices in New York and Hong Kong and seven in the UK. Annual turnover is £100m.

Nigel: "I knew Robin by reputation long before our companies merged. He's an extremely nice man, a good people person and a natural leader. There's a military air about him which comes from being in the Territorial Army for 21 years. He'll often talk in army jargon, like 2IC, for second-in-command, and speaks of his men being behind him.

He's an imposing chap with a loud commanding voice. I think some of the junior solicitors are rather in awe and a little bit intimidated by him.

We've come from different legal backgrounds – I was a non-contentious corporate lawyer, Robin was a litigator – but the growth of the business has meant that neither of us gets to practise the law much.

We can only prosper by providing an all-round service for our clients. Increasingly, accountants are doing the jobs of lawyers and vice versa. Eventually there will be no distinction between the two professions. We now undertake trade mark and patent exploration, then litigate when things go wrong. It means the client has one port of call.

As senior partner, Robin is responsible for taking us forward. We both want to expand but not for the sake of it. You don't grow to make less money and you can't grow unless you've got a degree of financial strength to invest.

Information technology costs a fortune. We know because we're investing [illegible] to link all our offices by computer. We share the same goal, which is to become more efficient and ultimately reduce our fees."

Robin: "Nigel is a very energetic, forward-looking fellow, with a lot to say for himself. We're both from the north. I'm from Leeds, a city of manufacturing, he's from Sheffield, the home of steel foundries, dirt and sweat.

Nigel has a typical south Yorkshire temperament in that he's determined to succeed against many odds. His life is a succession of meetings and telephone calls. He's surrounded by complete chaos which is reduced to order by a very efficient secretary.

Nigel will walk around a room during a meeting, which isn't my style. I like to sit down, be methodical and considered [illegible]. Of course I'm involved [illegible] in all matters but [illegible] the point of interfering.

[illegible]

[illegible]"

[illegible]

Viewpoint · Adrian Furnham

Give trainers the sack

The ideal is to have a portfolio of external trainers whose individual expertise enriches a company

Fire them all: the whole training department needs to be made redundant. It is inefficient, counterproductive and bad practice to employ in-house, full-time trainers. As many big organisations like Shell and Du Pont have discovered, the attitude to, enthusiasm for, benefit of, and cost incurred by training is improved if the whole department is outsourced.

This is not an argument against training, but rather the opposite. It is often in-house trainers who give training a bad name.

All staff need to be properly trained. They need specialist technical and generalist managerial training. They need to attend refresher courses to practise and perfect these skills. They need training on ever-changing computer systems. They need to be trained in fundamental business skills such as letter writing, understanding financial statements and project management. But this is best done by carefully selected, audited and monitored outside specialists.

So what are the arguments against in-house trainers?

● First, in order to get cost effective use out of trainers, they probably need to be "in the classroom" about 70 per cent of the time. That is a lot of training time – perhaps too much for the organisation and certainly too much for the trainer. Optimal utilisation of the training department is very difficult to achieve. Long summer holidays and peaks in the business cycle mean little training. Fallow training periods waste money. Equally, in busy times the staff may not be able to cope.

● Trainers burn out easily. Training is exhausting, as any good trainer will tell you. They need to be entertainers, monitors, enthusiasts and educationalists at the same time. They have to coerce the unwilling, amuse the sense-of-humour failures and render the charisma-by-pass manager charming. They have to pass on skills and knowledge but also what Americans call "attitude". To do all this takes its toll. Used too often even the best trainer can become tired, flat and boring. The working life expectancy of full-time trainers is rather short.

● Trainers are notoriously difficult to manage. This is partly due to the sort of people that drift into training. Am-dram enthusiasts, intellectuals manqué and failed preachers all get attracted to training. They can be egotistical and are rarely team players. Many get very enthusiastic about newfangled ideas and fads in training. Attracted by bizarre and long-discredited ideas, trainers can often be heard espousing scientific nonsense because they do not, perhaps cannot, keep up to date with the literature.

● Most trainers are not interested in, and do not understand, business issues. Yet employee training must be integrated with the business plan. It has to be responsive to current organisational issues. Training must be flexible and dynamic. Yet courses tend to have a life of their own, often being repeated because of the peculiar enthusiasm of particular individuals.

● Finally, over time, many trainers become organo-centric. While it may be a huge advantage that they have a full understanding and knowledge of their particular organisation, they tend to know less and less about others. Despite talk of benchmarking, best practice and so on, they take their eye off others and become obsessed by internal issues and politics. Outsiders, by contrast, bring a wealth of comparative knowledge.

The implied solution is to buy in trainers from the outside. The ideal is to have a portfolio of tried and trusted trainers whose individual expertise and outside experiences enrich the company. "Hired when required; fired when tired" is the optimal solution.

Adrian Furnham is professor of psychology at University College London

---

Sex, lies and a female way with autocracy

Lucy Kellaway

Males and females behave differently. Watch them in the school playground and in the office canteen. Just listen to them chatting on the bus and at cocktail parties.

The popular view is that men and women managers behave differently too. There is supposed to be a distinctive female management style that is softer, more democratic. Women bosses are said to be more emotional, more caring, more risk-averse, less aggressive, more compassionate, better listeners and natural mentors.

Yet the facts simply do not bear this out. Men and women may be different, but managers are all the same. Research from the Institute of Management published today (above) suggests that the management styles of the sexes are almost identical. Both emerge as participative and democratic; neither sex comes out as in the least authoritarian or aggressive.

This is not so strange when you consider that the survey was based on a questionnaire that managers had to fill in about themselves. It is safe to conclude, therefore, that the sexes are equal in their ability to lie. Managers are meant to be team players and coaches, so it is not surprising if they chose to describe themselves in those terms.

More damaging to the conventional "soft" view of women managers is research from Manchester Business School. This suggests that if anything women entrepreneurs are *more* autocratic than men.

Still, surveys can prove whatever you want them to. The evidence I find more convincing comes from real life. If you think about the women you know in authority, it is hard to find much evidence of these famous softer skills. Most of the female bosses I know are just as aggressive and authoritarian as their male counterparts. (Admittedly our very own Marjorie Scardino, the brand new chief executive of Pearson, shows some softness in addressing her office memos to "Dear everybody" – but it is early days.)

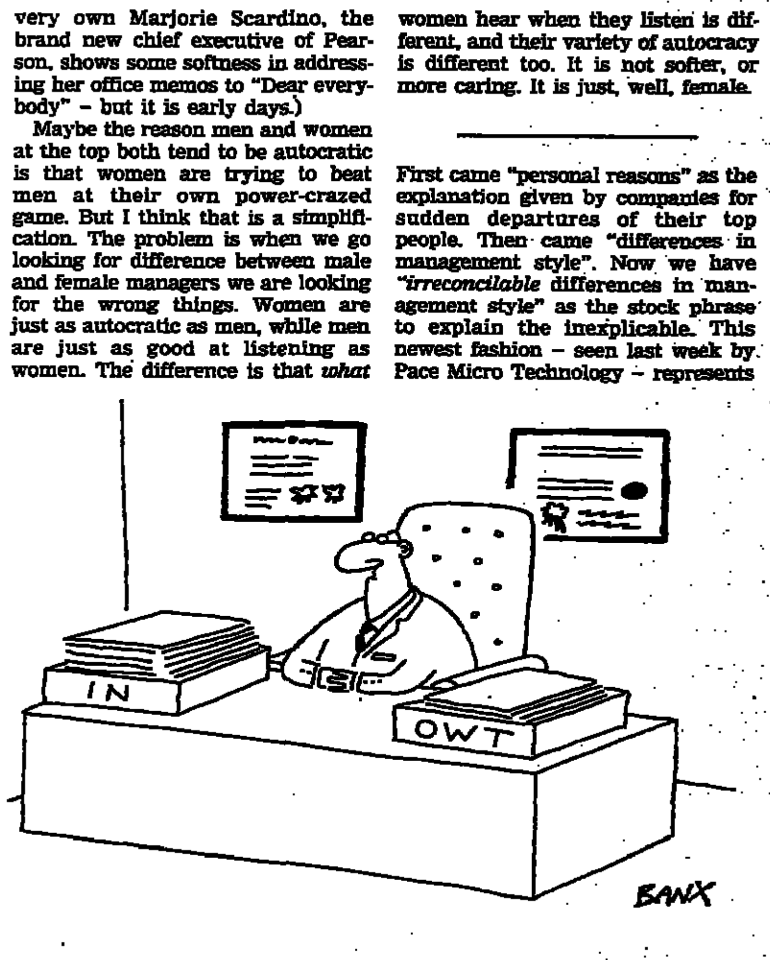
Maybe the reason men and women at the top both tend to be autocratic is that women are trying to beat men at their own power-crazed game. But I think that is a simplification. The problem is when we go looking for difference between male and female managers we are looking for the wrong things. Women are just as autocratic as men, while men are just as good at listening as women. The difference is that *what* women hear when they listen is different, and their variety of autocracy is different too. It is not softer, or more caring. It is just, well, female.

First came "personal reasons" as the explanation given by companies for sudden departures of their top people. Then came "differences in management style". Now we have "*irreconcilable* differences in management style" as the stock phrase to explain the inexplicable. This newest fashion – seen last week by Pace Micro Technology – represents an advance in that it leaves us in no doubt that something pretty nasty has happened. But it does not actually help us in understanding what the nastiness was all about. It is most improbable that anyone could actually resign suddenly over a difference in style – especially in the case of Pace. After all, the joint chief executives have had years to get the drift of each other's style.

One assumes that when companies wheel out this explanation either something shameful has gone on or there has been a huge bust up leaving a good deal of personal hatred in its wake. Corporate openness only goes so far. It will be a long time before we see the phrase "hate each other's guts" on a press release.

A succession of personnel directors has been moaning in Management Today about how graduates these days can't spell. The underlying assumption is that if they kant spel there can clearly be no question of hiring them.

I have never mastered spelling myself, and while I'm not proud of it, I do not consider it to be my worst failing as an employee. Spelling is an illogical thing and says nothing about intelligence, diligence, creativity, trustworthiness or whatever qualities the personnel directors are looking for. I agree that it does not look good to send letters in which half the words are misspelt, but these days there is no need for that: we all have computer spellchecks, and failing that there is always the dictionary. The trouble with the latter is that you need to know roughly how to spell the word before you can find it in the book. The solution is to find a colleague who was a [illegible] at spelling-bees. They are usually happy to be asked – after all, think how nice it is to be asked a question which you can answer so easily.



FINANCIAL TIMES
COMPANIES & MARKETS

Week 10

Monday March 3 1997

Hertz flotation intended to raise $100m

Sale of common shares will leave largest US car hire company under Ford control

By John Authers in New York

Hertz, the largest US car hire company and a wholly owned subsidiary of Ford, plans to raise up to $100m with an initial public offering.

Avis, its largest competitor, was also rumoured to be looking at a flotation. The company was bought by HFS, a Maryland-based franchising operation, for $800m last year. Avis has only a small stake in Avis Europe whose planned flotation was announced on Friday.

Once the Hertz deal is completed, all five of the largest US car rental chains will have undergone some change of ownership since the beginning of last July.

Wall Street interest in the industry has been revived as analysts now believe car hire companies should see a recovery in profit margins after several difficult years.

Ford will retain control of Hertz, which analysts value at between $2.5bn and $3bn.

The flotation will cover only class A common stock, and Ford will continue to own all of Hertz's class B shares, and more than 80 per cent of its total equity.

Ford had already announced in January that it was selling its interest in Budget Rent A Car, the fourth-largest chain in the US, to Team Rental, one of its franchisees, for $350m. Budget's recent results had been considerably weaker than those of Hertz.

Mr Wayne Huizenga, who built up the Blockbuster video rental chain before selling it to Viacom, has also taken an interest in the industry, acquiring Alamo and National, the third and fifth-largest car hire chains, for $625m and $600m, respectively.

He intends to use them to provide cars for his growing used-car dealership company.

The other two large motor manufacturing companies are less enthusiastic than Ford about the rentals market. General Motors has already sold its interests in the sector, while Chrysler is trying to sell its Thrifty and Dollar hire units.

The new offering also continues a trend for Ford to sell or spin off businesses which are outside its core activities.

Last year Ford sold a 19.3 per cent stake in its successful Associates consumer finance company through a public offering, in a deal which has since helped to bolster its share price.

Analysts speculated that the cash raised by the flotation might be used for Ford share repurchases, as part of its bid to raise its share price, although the company said it would use the proceeds to reduce short-term debt.

JP Morgan, Goldman Sachs, Lehman Brothers, Salomon Brothers and Smith Barney are underwriting the deal.

Randgold to float mining offshoot

Gold offering to be biggest in London for a decade

By Kenneth Gooding, Mining Correspondent

Randgold of South Africa expects to list its international exploration and mining offshoot, Randgold Resources, on the London stock exchange before the end of June in one of the biggest gold mining company initial public offerings in London for over 10 years.

The terms will value Randgold Resources at about £400m, while Randgold will raise about £160m. The only bigger gold company flotation in London over the past decade has been that of Ashanti of Ghana in 1994.

The mining industry has been turning more to Canadian stock exchanges, particularly Toronto's, to raise money, but Mr Peter Flack, Randgold's chairman, said: "Resources is a serious, long-term company and it is more appropriate for it to list in London."

He said it would probably also be listed on Nasdaq in the US, and with an emerging market.

Randgold's holding will be reduced from 78 per cent to about 54 per cent after the listing.

Apart from having extensive gold exploration projects in Africa, Randgold Resources last August bought 65 per cent of the Syama gold mine in Mali from Broken Hill Proprietary, the Australian group, for US$84m. In preparation for the flotation, Randgold has repaid $31m of debt to BHP following the Syama acquisition and has also bought BHP's 2m shares in Resources.

About 1½m of these shares were sold on to institutions in the US and Europe which have backed Randgold Resources since it was set up in 1995.

BHP is understood to have received a slight discount on the $25.50 at which the Resources shares were valued for the Syama deal. Randgold has a bridging loan to cover the cost of removing BHP from the scene.

Preparing for a London flotation: Randgold chairman Peter Flack (inset right) and Mark Bristow, (inset left), managing director of its exploration offshoot Randgold Resources. The company has extensive gold exploration projects in Africa

Mr Flack's target is to sell the Randgold Resources shares at between $25.50 and $30 each, depending on market conditions.

He said during a visit to Syama that, as well as making substantial changes there to bring down costs, Resources already had identified projects that should give it another four gold mines in the next five years.

The International Finance Corporation, the World Bank offshoot, wanted to refinance $35m of loans, making them non-recourse and carrying a lower interest rate, as well as swapping its shares in Syama for those of Randgold Resources. This would be done.

BHP spent $107m to develop Syama in two stages in 1990 and 1994, but the mine never lived up to its expectations.

Mr Mark Bristow, Randgold Resources' managing director, said $68m would be spent in the next three years on capital equipment and making changes to bring Syama's costs down and push output up. The objective was to reduce cash operating costs, which were between $350 and $360 a troy ounce when BHP owned the mine, to $250 in the first 15 months and then to $210. Output would increase from 120,000 ounces a year to 210,000 and then 270,000.

At present Syama's gold resources total 4.34m ounces but Mr Bristow said there was potential for more reserves to be found.

Banque Hervet may be offered for public sale

France could drop plans for trade sale of regional bank

By Andrew Jack in Paris

The French government is considering a public share offering to privatise Banque Hervet, the state-owned regional banking group, in the next few months.

Those close to the discussions say that officials are raising the possibility of a public sale rather than a trade sale to a single buyer, as planned when the bank was first earmarked for privatisation in 1993.

The change appears in part to reflect caution after recent abortive trade sales, notably of CIC, the regional banking group, and Thomson-CSF, the defence and electronics group.

Trade sales of other state-controlled enterprises – such as SFP, an audio-visual business, and CGM, a shipping group – have also provoked criticism over terms and the selection of buyers.

The idea of a public offer comes as the French stock market appears to be picking up and individual investors are showing signs of renewed interest.

This is already spurring the government to sell a stake in France Telecom this spring.

However, a public sale for Hervet could cause difficulties, given the relatively small size of the bank and the specialist nature of its business.

The sale is expected to raise only a few hundred million francs and it might jeopardise the tenders being considered by trade buyers.

Crédit Commercial de France has expressed interest in buying Hervet and at least one other investor is believed to be studying the dossier seriously.

Unless a decision is taken in the next few weeks, the privatisation is likely to run into timing problems, given the national elections next year and a tight calendar.

Other sell-offs being discussed include GAN, the insurer, which could be sold as soon as this year, separately or alongside CIC.

On Friday, Hervet unveiled 1996 profits up 32 per cent to FFr71.3m ($12.5m) on banking income up 8 per cent to FFr1bn.

It took provisions of FFr55m to cover restructuring costs and preparations for a single European currency.

The group stressed that in the past three years it had halved the size of its outstanding loans to the property sector – to which it had been heavily exposed – without recourse to a defeasance or sale to "vulture funds".

Executives get rich on share rise

By Richard Waters and John Authers in New York

The surge in US stock prices over the past two years has made some of the US's top corporate executives seriously rich, according to recently released data.

The value of many of the stock options granted under executive pay deals in the early 1990s has risen with the stock market. In many cases they swamp the value of incentive bonuses awarded in addition to salaries.

The disclosures, made in the proxy statements that US companies file ahead of their annual meetings, is likely to stir renewed debate about whether corporate America is overpaying its leading executives.

Mr Richard Fisher, chairman of Morgan Stanley, holds stock and options worth more than $250m, according to a filing made late last week. Mr John Mack, the US investment bank's chief executive, is worth $150m.

Shares in Morgan Stanley, which recently agreed a merger with Dean Witter Discover, had doubled since April 1995, from $34 to $68 immediately before the merger.

Mr John Reed, chairman of Citicorp, the US's second-biggest banking group, has also grown richer with his company's share price. His stock and options are worth more than $170m, according to a filing by the bank last week.

Mr Reed has presided over a resurgence in Citicorp's fortunes in recent years, with its share price rising from $11 at the end of 1992 to its current price of $116⅝ – although he was also the bank's chairman when it stumbled into huge losses in the early 1990s.

Last year he exercised options allowing him to buy stock at a $40m discount to its prevailing price, even though his total pay dropped 19 per cent to $3.5m to recognise Citicorp's weaker performance compared to 1995 and 1994.

The bank took a pre-tax charge of $55m to pay for performance-linked options in the fourth quarter, prompting claims from analysts that the share price targets had been too lenient. The bank said the options were granted to "align the interests of the senior management with the stockholders to a greater degree".

The huge wealth conferred by executive stock options at Walt Disney has prompted concern among big US investment institutions. Several institutions last week voted against a move to give Mr Michael Eisner, the company's chairman, options valued by the group at nearly $200m. Mr Eisner is already one of the richest US executives.

UK bonus warning, Page 7
Global Investor, Page 26

Decision soon on probe into NatWest arm's £50m loss

By Christopher Adams

Regulators in the City of London are likely to decide this week whether to launch a joint inquiry into the £50m ($81m) options trading hole at the investment banking arm of National Westminster Bank.

NatWest said yesterday that it first became aware of the scale of the loss at NatWest Markets last Wednesday, just a day after the investment banking arm announced a 52 per cent increase in profits to £482m last year.

An official rejected suggestions that a provision for the loss, to be set against made with its full-year results. She said the problem "did not come to light in time".

The bank announced the discovery of pricing errors on Friday. It found them after the departure of a junior trader, believed to be Mr Kyriacos Papouis, who now works for Bear Stearns, the US securities house.

Pending an internal inquiry, NatWest has suspended Mr Neil Dodgson for failing to supervise the junior trader. Mr Dodgson joined the bank in 1991 as manager of European currency trading.

The Securities and Futures Authority, which expected to have talks this week with the Serious Fraud Office to decide their approach.

An SFO official stressed that the Fraud Office had not yet launched its own investigation. "We don't know whether serious fraud is involved," she said.

NatWest insisted that clients were not affected.

The bank declined to say whether the trader would have been using a model which calculated prices using an average rate of volatility which some options traders believe might result in overpricing contracts where a strike price was too high, and

Luxury furniture retailer expected to deliver bullish view of current trading

Heal's poised for sharp profits jump

By Peggy Hollinger

Heal's, the luxury furniture retailer which is coming to the market this month, is on Thursday expected to report operating profits of £1.5m for the first 20 weeks of the financial year – more than it made in the whole of 1996.

In a pathfinder prospectus to be published this week, Heal's is expected to give potential investors a bullish view of current trading. With the first 20 weeks accounting for roughly 90 per cent of group profits, and comparable sales running some 16 per cent ahead of last year, the group is likely to indicate a sharp jump in profits for the full year.

Last year Heal's made operating profits of £1.75m on sales of £19.4m. However, the profit included a one-off £426,000 net contribution from rate rebates which will not be repeated.

Heal's operates from three stores, the most famous of which is located in London's Tottenham Court Road. From this imposing listed building, commissioned by Sir Ambrose Heal to replace the farmhouse where the Heal family first started making beds, it has sold hand-crafted furniture since 1840. Heal's has a second store in Guildford, Surrey, opened in 1971, and last year launched a third in the King's Road in London's Chelsea.

Heal's is coming to the market through a £10m placing led by Close Brothers. The float is expected to value the group at about £15m and will make paper millionaires of the three directors who invested less than £500,000 in a management buy-out from Sir Terence Conran's Storehouse group in 1990.

Mr Colin Pilgrim, chief executive, who joined the group as a management trainee in 1971, will hold about 18 per cent of Heal's. Other directors are expected to retain a further 12-17 per cent. NatWest Ventures, which backed the MBO with an initial investment of just over £1m for a 50 per cent stake, will make about £7.5m from the float.

Heal's hopes to raise about £2m from the placing to invest in refurbishing its flagship store, as well as in finding new sites. The group is hoping to open about one store a year in large city centres such as Manchester, Glasgow, Dublin and Newcastle. Société Générale Strauss Turnbull are brokers to the group.

Paul Clarke, finance director, (left) with Colin Pilgrim (centre) and John Davies, *merchandising and logistics director: plans to open one store a year in large city centres*

Chiroscience to unveil cancer therapy drug

By Roger Taylor

Chiroscience, the biotechnology company, is expected to announce today that it has identified a potential cancer therapy which it hopes to put into clinical trials later this year.

In a briefing to analysts today, Chiroscience will outline progress on its research programmes and will unveil its new candidate cancer treatment.

The addition of a potential cancer treatment to Chiroscience's pipeline of products is likely to have a significant impact on the company's value, analysts said.

The new drug is based on the same technology as British Biotech's Marimastat.

Marimastat, an MMP-inhibitor, has been shown to be effective in interrupting the growth of cancers and is now in the final stages of clinical trials.

Investor excitement at the prospects for Marimastat has made British Biotech the largest biotechnology company in the UK. It is valued at about £1.7bn despite the fact that it has never made a profit.

Chiroscience's product is intended to work in a similar way to Marimastat but with lower side-effects. In some circumstances, Marimastat is thought to cause aching joints.

Analysts are also expecting news today of Chiroscience's lead product, levobupivacaine, a purified form of a commonly used local anaesthetic designed to have less side effects.

Levobupivacaine is currently in the final stages of clinical trials. Chiroscience hopes to be able to bring it to the market next year.

Astra, the Swedish pharmaceuticals group, recently launched a competitor product, ropivacaine. Analysts are expecting Chiroscience to report evidence that its own product is superior to Astra's. Floated in 1994 at 150p, the shares reached a high of 600p last year before falling back. They were 417½p on Friday.

Chiroscience significantly expanded its areas of research last November when it bought Darwin, a California-based genomics company, for £120m. However analysts are not expecting further news on Darwin at today's presentation.

Rothschild fund for 'nervous' institutions

By Peter John

Rothschild Asset Management will today announce a fund for institutions which are cash-laden, but increasingly nervous over potential market hitches.

The launch follows news that National Westminster Bank has suspended a senior trader after discovering a £50m hole, which may have sprung from mistakes in pricing sterling and Swiss franc interest rate options.

Mr Peter Collacott, managing director of Rothschild Asset Management, said: "There is more cash around than there has been for a long time – some $3,000bn (£1,852bn) in the US and growing every day.

"The fund is being launched at a time when professional investors are more concerned than ever about the safety of assets and the need to spread these among a diverse group of institutions. We thought we should make a response to people who might worry about the cash following incidents such as Barings [the institution which ran up losses of £830m in Singapore in 1993]."

The investment vehicle, called the Five Arrows Cash Management Fund, is similar to a US money market fund, and is effectively a securitised bank account. It gives a secure return combined with high liquidity.

But it also offers exposure to sterling, the D-Mark and the Canadian dollar. And because it is based in Dublin it is available to non-US investors or US institutions with overseas subsidiaries

Finally, and perhaps most importantly, it is able to command a AAAm rating from Standard & Poor's, the US rating agency, because the fund will only invest in the most highly-rated government, bank or corporate money market instruments.

● Prudential, the UK life insurer, has announced details of its $1bn Asia fund launched late last year. The fund will be partly managed by Credit Lyonnais Securities (Asia) and will concentrate on established companies needing development capital.

Capital Corp to delay results announcement

By Scheherazade Daneshkhu

Capital Corporation, the target of a £178m hostile bid from London Clubs International, is expected to delay announcing its 1996 full year results due tomorrow because London Clubs has not released its offer document.

The former Crockfords is believed to be planning to issue its defence document along with its results.

It brought forward the release of its results by a week to March 4 apparently in the belief that London Clubs would have released its offer document last Tuesday or Wednesday.

But London Clubs' document – which is expected to attack the profits and share price record of Capital Corporation, its smaller rival in the London casino market – did not emerge last week.

London Clubs announced its hostile bid a fortnight ago. However, Mr Alan Goodenough, chief executive, went to Las Vegas last Wednesday and it is believed that the company did not wish to issue the document in his absence. He is back in the office today.

London Clubs is likely to contrast its profits growth since flotation in 1994 with that of Capital's. Profits have grown from £14m on turnover of £146m in the year to March 1994, to £33m on turnover of £167m last year, with £37m expected this year. When Capital floated in 1993 – as Crockfords – profits reached £23m. But they are expected to come in at £9m for 1996.

However, Capital is expected to argue that trading in the past two years has been distorted by one-off costs due to the acquisition and refurbishment of the Colony Club, its second London casino, and the installation of computer-based purchasing controls. Its shares rose strongly last week on speculation that London Clubs was preparing a higher offer, or that a counter-bidder would emerge. Ladbroke, the betting and hotels company, is seen as the most likely candidate.

Bidders from overseas, principally from the US, could also emerge.

NEWS DIGEST

Warner confirms tie-up with HTV

Warner Brothers International Television will today announce officially that it is entering a long-term television production relationship with HTV, the ITV company for Wales and the west of England.

The deal with Harvest Entertainment, HTV's rights company, is seen as the most significant international production alliance to be struck so far by the ITV company.

"HTV's Harvest Entertainment is a great addition to our growing slate of international production associates," said Mr Jeffrey Schlesinger, president of Warner Brothers International TV.

Harvest is already working with Warner on a 26-part animated series of *Zorro*, the masked swordsman, in production at Fred Wolf Films in Dublin. The series is scheduled to go into the US syndication market this autumn.

Raymond Snoddy

United Inds chief resigns

Mr Tom Brown has resigned as chief executive of United Industries and has left the engineering company. He will be replaced by Mr Ken Coates, chairman, and two non-executives until a successor can be appointed. Mr Coates said the group was "immediately streamlining the management structure, saving £500,000 of annual costs".

Mr Brown, who joined United in 1993, was on a one-year rolling contract. His total remuneration for last year was £184,000; compensation has not yet been agreed.

On Friday, United reported a loss of £446,000 for the year to December 28, following a £3.2m exceptional charge relating to the sale of its lossmaking Holden Hydroman offshoot. The loss, on turnover of £50m, compared with profits of £3.55m last time on £60.6m turnover.

Mr Coates said the year had been "marred by the difficulties at Holden Hydroman" which had been sold shortly after the year-end. However, operating profits on continuing businesses were up 26 per cent to £3.76m on sales up 12 per cent to £38.1m.

Patrick Stiles

CT to clear dividend arrears

Concurrent Technologies, which produces single board computers, more than doubled pre-tax profits for the year to December 31 from £566,406 to £1.3m on turnover up 84 per cent to £6.68m.

However, Mr Michael Collins, chairman, said that profits for next year may not reach the 1996 level due partly to the start-up costs associated with bringing manufacturing in-house and also to the costs of developing and marketing new products. He added that the Aim-quoted company now had sufficient profitability and cash generation to pay preference dividend arrears in full and that for the first time an ordinary pay-out of 0.1p is expected.

Blockleys hit by rivals

Blockleys, the brickmaker, issued a profits warning following a write-down of £2m of stocks caused by weak demand and competitive pressure. It had already cut costs and production and said it would "review the need for additional cuts in production capacity while sales are being made from stock". The company said its pre-tax loss for last year, due to be revealed in April, "will be significantly greater than current market expectations".

Fitness First looking healthy

Mr Christopher Pearce, chairman of Fitness First, stated his optimism about the health club operator's prospects in a trading statement. He said the number of new members confirmed the continuing strong growth in the health and fitness industry with three clubs – at Shrewsbury, Southend and Derby – opened already this financial year. The projected expansion programme of between six and eight clubs for 1997 looked achievable and others had also been earmarked for 1998.

هكذا من الأصل

The ability to think about old truths in a new way
is the ultimate difference between ideas
that will fade and those which will catch fire.
The greater the resources, the greater the possibilities.

erase_preconceptions

UNITING CORPORATE AND INVESTMENT BANKING WORLDWIDE • US$ 11 BILLION TO… • OFFICES IN OVER 30 COUNTRIES • 10,000 PEOPLE •

CREDIT SUISSE | FIRST BOSTON

www.credit-suisse.com/fb

Issued by Credit Suisse First Boston (Europe) Limited: regulated by SFA.

COMPANIES AND FINANCE

Isuzu claims better diesel engine

By Michiyo Nakamoto in Tokyo

Isuzu, the Japanese vehicle maker, says it has developed a diesel engine that is twice as fuel-efficient as a comparable petrol engine, and 30 per cent smaller and 25 per cent lighter than other diesel engines.

The direct-injection engine uses a new injection system which enables a 3,000cc class engine to run more than 20 kilometres on one litre of diesel, compared with 10km for a petrol engine of the same size.

Isuzu, which is 37.4 per cent owned by General Motors, aims to use the engines in GM's European vehicles, made by Opel. Although the engines would be primarily aimed at the European market, a decision has not been made on a production site. The engines are likely to be made initially at its factory in Hokkaido.

By using aluminium for all main components, Isuzu was able to reduce the weight of the engines by 25 per cent, compared with previous diesel engines of a comparable size. The size of the engine is also reduced by 30 per cent.

Japanese carmakers, which have been slow to develop diesel engines, are starting to put more emphasis on them, as they expect greater demand from Europe and, eventually, Japan.

Diesel engines have suffered from a bad image in Japan, because they can be noisy and emit black fumes. In spite of the substantial discount on diesel fuel in Japan, diesel engines make up only about 3 per cent of all vehicle engines, including trucks, on industry estimates.

This compares with about 23 per cent in Europe, where they are popular among environment-conscious consumers because they emit less carbon dioxide. The industry expects diesel engines to take a 30 per cent share of the engine market in Europe by 2000.

Although it will take some time for Japanese drivers to overcome their suspicion of diesel fuel, Japanese carmakers expect demand for diesel engines to grow gradually in the years ahead.

Meanwhile, Toyota has developed a new system for fuel injection which reduces noise and improves the fuel efficiency of direct-injection diesel engines. Toyota plans to develop an engine based on the new technology within two years, which it expects to use in its European vehicles.

Louis Dreyfus aims to let outsiders in

By David Owen in Paris

Louis Dreyfus, the French multinational trading organisation, expects to offer shares in more of its industrial businesses to outside investors, as part of a gradual transition towards a holding company structure.

Mr Gérard Louis Dreyfus made the disclosure in a rare interview at the company's Paris base near the Arc de Triomphe. Now 64, he has run the traditionally secretive, family-controlled business since 1969.

The company has annual turnover of more than $20bn. Its interests include shipping, *foie gras*, electricity and the Four Seasons hotel in Washington. It claims to be both the leading cotton trader and the leading industrial alcohol merchant in the world.

According to Mr Louis Dreyfus, the operations for which the group is most likely to seek outside capital are industrial businesses such as its South American plywood and European menswear operations. (The company has the licence to make Ralph Lauren menswear in Europe.)

He made clear, however, that such moves were likely to take place over "a five or 10-year period", and that it did not plan any further share offerings "in the next few months".

The businesses earmarked for share offerings did not include the company's traditional grain trading operation. "A pure trading or merchandising business, like the grain business we have, does not lend itself to public ownership," he said. "It is very difficult to estimate earnings in that business."

Last November, the group floated just under one-third of Louis Dreyfus Citrus, its orange juice business – the world's third-largest – on the Paris Bourse. A natural gas operation is also publicly quoted.

Mr Louis Dreyfus indicated he expected electricity to account for an increasing proportion of the group's business in coming years, as deregulation stimulated demand for the sort of trading and risk management expertise it could offer.

"Electricity is the most voluminous commodity in the world," he said. "And if you look at it the way one should, it is also the most volatile."

The company had recently formed a joint venture to market energy products with Duke Power, a big US utility based in North Carolina. It was also looking at the European market, but "very preliminarily".

Gérard Louis Dreyfus, 64, has run the business since 1969

Sharp fall in chip prices hurts Toshiba

By Michiyo Nakamoto in Tokyo

Toshiba, the Japanese integrated electronics manufacturer, warned that profits in the year to March will be lower than expected. It blamed a sharp fall in semiconductor prices, sluggishness in consumer electronics sales and a decline in orders for heavy electrical equipment.

The warning comes as many Japanese electronics companies have been enjoying the benefits of a weaker yen. It highlights how much the fall in prices of memory chips and consumer electronics have affected some. The yen's weakness will enable Toshiba to maintain consolidated sales for the year at the forecast Y5,500bn ($45.57bn), an increase of 7 per cent.

However, group pre-tax profits will be Y120bn, rather than the Y160bn forecast. Net profits will be Y60bn, rather than Y80bn. The new figures represent declines of 32 per cent and 34 per cent respectively from 1995-96.

Toshiba was badly hit by the decline in prices of dynamic random access memory chips over the past year.

As a result, it does not expect to reach its target of Y930bn in semiconductor sales, and is likely to have to revise it to under Y900bn. That compares with semiconductor sales of Y1,030bn in 1995-96, when they made up 28 per cent of sales.

Toshiba, which had been expecting its consumer electronics division to break even for the first time in six years, suffered a weaker domestic market and larger price declines than it had anticipated, the company said. As a result, the division is expected to incur a loss.

Although washing machines sold well during the period, and cost-cutting measures were bearing fruit, these positive factors could not make up for the disappointing sales of air conditioners, refrigerators and video products. The division contributed 14 per cent to parent sales in 1995-96.

Swiss Re to sell on SAFR to Partner Re

By Andrew Jack in Paris

SAFR, the French insurer, is to be taken over by a Bermuda-based reinsurance company, as a result of a takeover bid by Swiss Re.

Partner Re, the New York-quoted but Bermuda-based reinsurer in which Swiss Re holds an 11 per cent stake, began its due diligence on SAFR on Friday. This should be completed by the middle of March and lead to its rapid acquisition of the group.

The takeover comes after Swiss Re, which owns 21 per cent, announced on Thursday its intention to buy the outstanding shares in SAFR at FFr1,470 each. These are held by AGF, the French insurer privatised last year, and its rival Athéna.

In the next few weeks it will launch a public offer for the remaining shares, which is likely to succeed, given that both Crédit Commercial de France and an individual, who between them hold a further 7 per cent, have already indicated their support.

In a second stage, Swiss Re will sell SAFR to Partner Re, in part for cash and in part for additional shares in the Bermudan group, bringing its total participation up to 21 per cent.

Partner Re specialises in natural catastrophe cover, and other infrequent but high intensity claims, while SAFR has a broader reinsurance portfolio.

Mr Hervé Cachin, chairman of SAFR, said yesterday he expected no fundamental change in strategy but would be holding meetings with Partner Re soon to discuss synergies.

The decision of AGF and Athéna to sell their stakes represents the latest stage in the withdrawal of traditional French insurers from the reinsurance market.

The FFr2.5bn ($439m) in cash paid by Swiss Re to AGF for the transaction has again fuelled speculation that the French insurer may be seeking acquisitions.

NEWS DIGEST

Village Roadshow plans expansion

Village Roadshow, the Australian entertainment company, plans to open 300 new multiplex cinemas in Europe over the next four years in a joint venture with Warner Bros International Theatres, a subsidiary of Time Warner, the US media group. The two companies already operate 17 cinemas in the UK through their joint venture Warner Village Cinemas, and intend to open another [illegible] by 2000. They plan to establish a chain of 20 multiplexes in Italy over the next four years, with the first scheduled to open this autumn.

Warner Village has aggressive expansion plans for Germany, France, Switzerland, Greece and the Czech Republic. Warner has formed a separate joint venture to run cinemas in Spain and Portugal with Inatmondo, a Spanish operator.

The investment by Warner and Village Roadshow forms part of the expansion of the European cinema industry, which is considered to have significantly higher growth potential, particularly for multiplexes, than the mature North American market. Virgin, the UK leisure group, is considering plans to extend its cinema network into other European countries.

Alice Rawsthor

Blow to BASF programme

The German Cartel Office has served a blow to the disposals programme at BASF, the German chemicals group, by barring the long-awaited sale of a controlling stake in its potash mining subsidiary, Kali & Salz, to Canada's Potash Corporation of Saskatchewan.

The cartel office said the acquisition of a 51 per cent interest in Kali & Salz by PCS, the world's biggest potash manufacturer, would mean the German group's dominant position in the domestic market could not be challenged in the long term. Kali & Salz has an 80 per cent share of the German market for potash fertilisers. BASF immediately vowed to appeal against the decision to the German finance ministry.

Sarah Althaus, Frankf

Ciments Français ahead

Strong growth in North America, Morocco and Turkey helped propel Ciments Français, the French cement group, to a 16 per cent advance in annual profits, from FFr275m to FFr318m ($56m) on sales down 2.8 per cent from FFr12.6bn to FFr12.2bn.

The company said a 26.4 per cent reduction in financial costs had more than compensated for the 6.9 per cent fall in its operating result from FFr2.09bn to FFr1.95bn. It was confident international activity would continue to pick up in 1997 but foresaw no short-term improvement in the French, Belgian or Spanish markets.

David Owen, Paris

Alcatel to launch 'SkyBridge'

Alcatel Alsthom, the French telecoms and engineering group, has filed an application with the Federal Communications Commission to launch and operate a $3.5bn 64-satellite constellation to provide interactive broadband services to business and residential customers. The company said the system – to be known as SkyBridge – would be operational in 2001. In addition to Internet access, it would provide bandwidth on demand for other types of high-speed data communications.

David Owe

Weak sales abroad hold back Cemex

By Daniel Dombey in Mexico City

A strong performance in its home country of Mexico pushed up 1996 sales at Cemex, the world's third-largest cement company. But a weaker than expected performance abroad put a squeeze on margins.

Mr Lorenzo Zambrano, chief executive, said Cemex would only cautiously expand its international operations, and was giving greater emphasis to marketing within Mexico.

For the year as a whole, total sales rose 5 per cent to 26.52bn pesos, while operating profits also moved up 5 per cent to 6.32bn pesos. Net profits increased 3 per cent to 7.7bn pesos.

However, in the fourth quarter, operating income slid 2 per cent on the same period the year before, to 1.5bn pesos, although sales rose 5 per cent, to 6.88bn pesos.

Mexican operations contributed 46 per cent of sales in the quarter, a much higher proportion than usual.

The recent strength of the peso helped net profits for the quarter to 1.75bn pesos, vastly greater than the 7m pesos achieved a year ago.

Operating profits for the quarter fell in the company's operations in Spain, the US and Venezuela, its three largest subsidiaries outside Mexico.

The company blamed bad weather in Spain and an economic slowdown. Selling and administrative expenses also increased substantially in Spain and Venezuela.

"I do not think these results [for the company's international subsidiaries] are going to repeat themselves," said Mr José Domene, president of the company's international division. He predicted that the division would have a strong second half this year because of economic growth in Colombia and Venezuela.

Mexican sales for the quarter jumped 31 per cent to 3.18bn pesos, as the country's construction sector began to recover from economic crisis. Operating income rose 70 per cent to 933m pesos, as higher volumes helped margins.

The company's share price has recently underperformed the Mexican stock market, as investors have reacted to executives' comments indicating ambitious expansion plans. Investors have worried about the possibilities of equity dilution or more debt. Cemex's debt was 53 per cent of its total capitalisation at the end of last year.

But Mr Zambrano, chief executive, said: "We will make an acquisition only if it does not hurt our overall financial situation or diminish our coverage of the interest burden."

Mr Zambrano predicted steady, rather than sensational, growth for the Mexican market in the rest of the year.

Black bid for JCI gets new deadline

By Mark Ashurst in Johannesburg

Business groups poised to take control of JCI, the mining house being sold by Anglo American, have failed to raise the cash by the deadline agreed in November. But the deal to create South Africa's first black-controlled mining house will go ahead nevertheless.

The sale is the most spectacular to date in a series of asset transfers from white-owned conglomerates to promote economic empowerment for blacks.

Although African Mining Group, a consortium of black businesses, has not yet raised the R2.9bn ($647m) cash to close the deal, Anglo has accepted the funding proposals of Mr Mzi Khumalo, a former political prisoner who is leading the consortium.

Mr Khumalo will take over as chairman of JCI, the world's sixth-largest gold producer, when the board is reconstituted later this month. The deadline for payment, which was last Friday, has been extended to May 2. Anglo said the buyers had "finalised the funding arrangements required" and had provided "irrevocable undertakings to fund the acquisition".

The transaction has been complicated by a slump in gold bullion prices since the terms were agreed on November 28. JCI's shares have fallen about 10 per cent since then.

Local institutions, which in October had helped fund the sale of Anglo's controlling stake in Johnnic, a R10bn industrial group sold to black buyers in October, declined to finance this deal.

In contrast with Johnnic, which was sold at a discount of 7 per cent to the ruling price, JCI was sold at a 10 per cent premium, following competition between AMG and New Africa Investments, South Africa's largest black company. The price of R54.50 a share is in line with net asset value.

The shares will be held by Saflife, the controlling company of Capital Alliance, a financial services group controlled by Mr Khumalo, two trade union investment trusts, and Investec, a merchant bank. Subject to shareholder approval, Saflife will raise R1.4bn from a rights issue and R1bn from issuing new shares.

Earnings at Sumitomo Rubber up 29%

By Jonathan Annells in Tokyo

Full-year profits leapt 29 per cent at Sumitomo Rubber Industries, Japan's third largest manufacturer of tyres, boosted by resurgent domestic demand for new cars and improved export earnings from the weaker yen.

Sumitomo Rubber said on Friday that non-consolidated recurring profits – before extraordinary items and tax – for the year to December rose 28.6 per cent to Y9.15bn ($76m) on sales up by 3 per cent to Y287.7bn.

Net profits increased 29.9 per cent to Y4.54bn, or Y21.79 a share. The company will pay a final dividend of Y8 a share, unchanged from last year.

The Kobe-based company has rebounded strongly after a 24.6 per cent fall in recurring profits in 1995 caused by the Kobe earthquake, which forced it to close its plant there.

Sumitomo Rubber said tyre sales rose 6.1 per cent to Y158.8bn, helped by an increase in tyres produced for new cars, as Japanese domestic vehicle production expanded for the first time in six years.

The depreciation of the yen contributed to robust demand for tyre exports to south-east Asia and the Middle East.

The company controls tyre manufacturer Dunlop in the UK, France and Germany. Sales of sporting goods, marketed in the main under the Dunlop label, accounted for 23.6 per cent of overall sales. They declined 3.1 per cent to Y55.9bn, which the company attributed to a downturn in the number of golfers.

Sumitomo Rubber's forecast for 1997 recurring profits is Y10bn, on sales of Y242bn. Net profits are projected to rise to Y5bn.

Earlier this month, Sumitomo signed a three-year production-sharing deal with Goodyear of the US, the world's third-biggest manufacturer of tyres.

Under this deal, Goodyear will produce Dunlop-branded tyres for Dunlop and Ohtsu in the US, affiliates of Sumitomo. Sumitomo and its Ohtsu subsidiary will produce tyres for Nippon Goodyear, the US group's Japanese subsidiary. The agreement covers 2m car and light truck tyres a year, for the replacement market.

Del Monte Foods to change hands

By Richard Tomkins in New York

Del Monte Foods, the US arm of the four Del Monte food businesses around the world, is to change hands again seven years after being sold to a group of investors by RJR Nabisco, the US and food and tobacco group. It is being bought by Texas Pacific, a private investment group led by Mr David Bonderman, for an undisclosed sum.

The San Francisco-based Del Monte Foods is said to be the biggest branded manufacturer and distributor of canned fruit and vegetables in the US. It had revenues of $1.2bn last year and has 2,100 regular workers, with seasonal employment rising to 12,000. Its product range includes 375 branded items.

RJR Nabisco sold Del Monte Foods to a group of institutional, corporate and private investors for $1.48bn, including debt.

At the time, Del Monte Foods included the European business, but Del Monte Foods Europe was subsequently sold to another investment group for $375m. RJR Nabisco sold Del Monte Fresh Produce to Polly Peck International and Del Monte Far East to Japan's Kikkoman group.

Texas Pacific has made two previous investments in the food industry. In 1995 it bought a North American marshmallow and confectionery business, now called Favourite Brands, from Kraft Foods, and last year it bought the Beringer Wine Estates in California from Nestle.

Its other investments include substantial interests in Continental Airlines, America West Airlines, and Ducati Meccanica, the Italian motorbike manufacturer.

INTERNATIONAL NEWS DIGEST

Prudential of US improves position

Prudential Insurance of America, the largest US life insurer, made some progress towards rebuilding its capital position in 1996, adding $684m to its capital base in a year marred by costly litigation over misleading sales practices. Its total capital base now stands at $12.05bn, well up on the $9.5bn it recorded two years ago. It had been hit by insurance losses, and compensation claims relating to sales practices at Prudential Securities, its brokerage division.

Prudential, a mutual insurer unrelated to the UK company of the same name, said it had been helped by strong results from its insurance division, and from Prudential Securities, which benefited from strong stock markets. However, the company had to make reserves to cover the costs and fines which have followed its attempts to compensate policyholders who were victims of mis-selling. Last month it reached settlements with regulators in three states, including Florida which had taken a hard line on the issue. It has agreed to pay compensation of at least $410m in total, and expects the final sum to be nearer $1bn. *John Authers, New York*

Postabank not afraid of run

Postabank, Hungary's second largest bank, yesterday sought to reassure account-holders after a weekend rush to withdraw deposits sparked by rumours of insolvency. The wave of withdrawals began on Thursday and accelerated on Friday, when the bank announced it would open over the weekend to satisfy any demand. Withdrawals totalled Ft 20bn ($115m) between Friday and Sunday, the bank said yesterday. Chief executive Mr Gabor Princz stressed that the bank had no liquidity problems, with Ft 70bn in liquid assets. He said he could not explain the panic among depositors. Postabank made a 1996 pre-tax profit of Ft 3.2bn and had total assets of Ft 388bn ($2.5bn) at the end of last year.

Mr Gyorgy Suranyi, president of the National bank of Hungary, speaking on Hungarian radio on Saturday, said the withdrawals did not threaten the stability of Postabank, which had the liquid reserves to meet demand. The bank could always borrow money on the inter-bank market, and funds from the national bank would be available if necessary. *Kester Eddy, Budapest*

Salomon reprimanded in HK

Salomon Brothers Hong Kong has been reprimanded by the territory's securities watchdog for failing to understand fully a securitised mortgage product which it sold to clients. The clients, unaware of the risky nature of the product, incurred considerable losses.

The Securities and Futures Commission was alerted when buyers of the Collateralised Mortgage Obligations complained after they had bought them from the bank's Private Investment Department (PID). SFC said: "When the bond market collapsed in February 1994 various clients who had not fully appreciated the risks of Collateralised Mortgage Obligations incurred considerable losses as a result of holding high-risk versions of this product." It said that staff in the department, were not promptly registered with the Commission when undertaking their duties. Moreover, certain staff when marketing the mortgage securities did not fully understand the nature of the products, and as a result clients bought them without fully appreciating the risks.

As part of a global change in strategy, Salomon in April 1995 – one year after the end of SFC's investigation – closed down its private banking operations, to concentrate on institutional business. Staff involved in Hong Kong PID dealings during the investigation period, which stretched from April 1993 to March 1994, are no longer with the group. *Louise Lucas, Hong Kong*

Alcoa to reward shareholders

Alcoa of Australia, the alumina refiner and marketer whose main shareholders are Aluminium Company of America and Australia's WMC, is to "decapitalise" its balance sheet by returning A$300m (US$233m) to its owners. Alcoa of America will receive A$180m; WMC, the Australian resources group, will get A$117.75m; and Sydney-based QBE Insurance, A$2.25m. The move is subject to approval at a shareholders' meeting next month, and is likely to be implemented by mid-year. *Nikki Tait, Sydney*

Brambles rises 15% midway

Strong growth from its North American operations helped Brambles, the Australian transportation group, to report a 14.8 per cent increase in first half profits at A$117.2m (US$91m) after tax. Sales fell A$145m to A$1.45bn, with the decline explained by exchange rate movements and the sale of some assets. The company said that Australian operations continued to perform "sluggishly", with little sign of any upturn in the sectors where the company operates. *Nikki Tait*

Iberdrola improves 13%

Iberdrola, Spain's largest electricity company after the state-controlled Endesa, reported a 13 per cent rise in consolidated net profit last year to Pta96.3bn ($672m), from Pta85bn in 1995. The improvement, which followed a 22 per cent rise the previous year, partly reflected a sharp 28 per cent rise in interest charges on its debt. Earnings before tax showed a stronger 28.5 per cent increase to Pta132.8bn. *David White, Madrid*

Mazda and Ford move closer

Mazda, the Japanese carmaker 33.3 per cent owned by Ford, is integrating five North American companies to improve its efficiency in the region. Mr Richard Beattie, an executive director at Ford, has been appointed to assist Mr Henry Wallace, Mazda president, in strengthening the Japanese company's position in North America. The move underscores the growing collaboration between Ford and Mazda since the US company took a controlling stake last April. Mr Beattie is the 11th management level official at Mazda sent in from Ford. The restructuring of Mazda's North American operations comes as Mazda and Ford are working on sharing vehicle platforms around the world. *William Dawkins, Tokyo*

GE in drive to double sales in Europe

By Peter Marsh

General Electric, the world's largest company by market capitalisation, is looking to double its sales of domestic appliances in Europe over the next three years.

The company's efforts follow a European campaign in the early 1990s by Whirlpool, GE's main US rival in white goods and the world's third biggest domestic appliance maker. The sales drive, which cost it tens of millions of dollars, is generally thought to have failed.

Whirlpool's failure to expand significantly in pan-European marketing strategy, which ignored the differences between consumers in different countries.

GE wants to increase its annual white goods sales in Europe from about $1bn to $2bn in 2000. The figures include revenues from General Domestic Appliances, a UK-based joint venture with GEC of the UK.

GDA employs 5,000 people and has sales of some $750m a year. For GE to hit its targets in Europe, GDA would have to expand production greatly, mostly for export to the rest of Europe.

If GE reached its goals, the pean market for white goods, which include fridges, cookers and washing machines, would climb from about 4 per cent to 8 per cent.

GE, the world's fourth biggest maker of white goods, is the eighth largest supplier of white goods in Europe, including GDA's sales. It is well behind the market leaders – Electrolux of Sweden and Bosch-Siemens of Germany, which have an estimated 20 per cent and 16 per cent respectively.

Mr Dennis Zalupski, managing director of GE's European appliances arm, said the company would launch a designs that catered for "a diversity of product types" within the European market.

He indicated that GE had learned from the efforts of Whirlpool, which has also appeared to underestimate the keenness of European producers to cling on to market share in individual countries, sometimes at the expense of building profits.

Mr Zalupski's ambitions have met with scepticism from rival white goods producers, which regard the European market as extremely tough, with little overall growth.

One consultant in the "I hope he has not taken out a long lease on his house because this plan does not seem realistic."

Whirlpool is thought to be in third position in the European industry, with a market share of about 9 per cent, followed by Miele of Germany and Elfi, Candy and Merloni, three Italian companies. However, its share of the market has grown only fractionally in the past five years.

GE hopes to improve its chances in Europe by placing orders with independent white goods producers for GE-designed machines with

FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / Richard Waters in New York

Bull market steered by options?

Remember when the odd $10m – or even $5m – made a chief executive very rich? Not any longer: after the 1990s bull market, you now need at least $100m to count as a serious participant in corporate America.

Current wisdom in US compensation circles is that there is nothing wrong with this state of affairs, as long as shareholders are getting rich as well. The modern executive share option scheme is meant to have aligned the interests of directors and outside shareholders perfectly. It may not be that simple, though. With stock options delivering such large rewards after Wall Street's headlong rise, personal stakes have got very high indeed.

This comes at a time when most US executives have already bowed unquestioningly before the alter of Shareholder Value, a phrase which has become a sort of code for: "Keep your share price rising, or else." Add in the huge amount of cash washing into corporate America's coffers and you have a potent combination of forces which already seems to be affecting the dynamics of the stock market. That could have a disruptive effect.

The poster boy of the option movement, of course, is Michael Eisner. Walt Disney stock he already owns, or which is covered by options, is worth more than $500m – so why all the fuss last week about the $300m or so of options his board has just given him?

But it would be wrong to see this as an issue solely between Disney and its shareholders. Also noteworthy has been John Reed, chairman of Citicorp, who exercised $40m of options last year. He now has $120m of the banking group's shares, and options worth another $57m.

Numbers like these make even Wall Street bonuses seem small. But then, Richard Fisher, chairman of Morgan Stanley, doesn't have to scrape by on the $10.5m he was paid in 1996: according to a filing last week, he also has shares and options worth $250m.

It is worth dwelling on the potential impact of these mind-boggling numbers. And they are just a sample: the annual US proxy season, when executive wealth is put on display, is only just getting into full swing. For a start, do chief executives of big companies deserve to get seriously rich? Forget the moral dimension for a moment and consider the economic implications.

Wasn't it the same John Reed who was running Citicorp in the mid-1980s and was at the helm when it came close to bankruptcy in the early 1990s? Citicorp may have bounced back strongly, but his reign doesn't look that great overall. The rewards accruing to America's business elite have been something of a one-way bet – unlike the wealth of shareholders at large, which rises and falls with corporate fortunes. That hardly looks like alignment.

Also, whatever the successes of the US's current crop of business leaders, it has been the favourable economic environment that has underpinned the stock market's rise. Perhaps Alan Greenspan, who wins plaudits in corporate boardrooms, should be cut in on the riches.

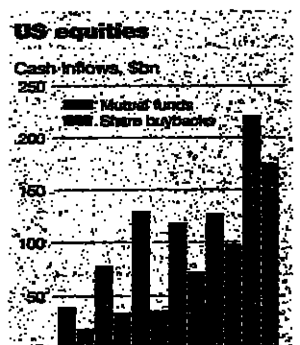
It is ironic, then, that corporate America's addiction to the option may indirectly be causing the Fed chairman something of a headache. He again lamented in public last week about the lofty level of share prices – but most bosses have their minds set on lifting them yet higher.

The psychology behind this state of affairs was apparent in a survey conducted last week by the Business Council. More than half of executives questioned said that US share prices in general were too high. Only 6 per cent, though, thought their own company's price had risen too far. Would you trust these people to invest your family's savings? But guess what: not only do they think their own shares are cheap, they are putting billions of dollars on the line to back that view.

Popular wisdom holds that it is the money flowing into mutual funds that has driven US share prices up. Perhaps so: but the cash spent by companies to repurchase their own stock is becoming an increasingly material part of the equation. As the chart shows, US companies now number among the biggest investors in the stock market – though mutual fund flows and corporate buy-back programmes are not precisely comparable, since the latter only represent an intention to buy shares in the future.

With their own personal fortunes on the line, it is not surprising that the members of the US's corporate elite want to keep the bull market momentum going. What that says about the value of US stocks right now is another question.

US equities



*Net investment in equity funds **Stock repurchase programmes announced during the year. Source: Securities Data; Investment Companies Institute

Total return in local currency to 27/02/97

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.01	0.06	0.06	0.14	0.11
Month	0.45	0.04	0.27	0.28	0.61	0.52
Year	5.21	1.06	3.50	4.63	9.69	6.31
Bonds 3-5 year						
Week	-0.68	0.25	-0.24	-0.09	-0.22	-0.14
Month	0.53	0.11	0.47	0.41	-1.01	1.25
Year	4.30	6.87	8.66	10.37	18.88	8.63
Bonds 7-10 year						
Week	-1.17	0.53	-0.37	-0.18	-0.12	-0.50
Month	0.79	0.16	1.86	1.61	-1.15	1.91
Year	3.73	10.67	13.12	15.72	29.78	12.16
Equities						
Week	-1.0	0.1	2.3	2.1	-3.8	-0.2
Month	+3.8	7.7	9.0	7.8	-3.8	3.1
Year	+24.8	-7.1	34.6	37.6	28.0	20.6

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Excel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

Compiled By AFX News

BNP will announce a sharp increase

Banque Nationale de Paris is expected to report sharply improved full-year net profits, with analysts' estimates ranging between FFr3.1bn and FFr3.5bn, compared with FFr1.78bn in 1995. The improvement is attributed to higher revenues, cost controls and reduced provisions. However, one area of uncertainty could be the FFr2.1bn book loss BNP will have included in its accounts from the sale of shares in UAP, following Axa's bid to merge with the rival insurer. BNP says the loss will be covered by capital gains from asset sales, but one French analyst says it may not have fully succeeded in doing so.

■ French defence electronics group **Thomson-CSF** is on Wednesday expected to report a slight increase in full-year operating profits. The 1995 figure was FFr1.96bn. This year's figures will be closely watched by Lagardère and Alcatel, contenders in the government's planned trade sale of Thomson-CSF.

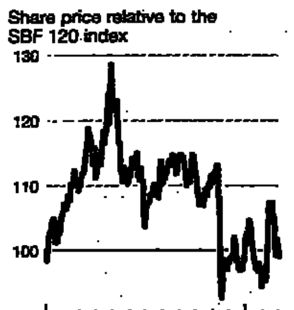
■ Other results from France this week include those of insurer **Scor**, bank **Crédit Commercial de France** and packaging group **Pechiney**, all due on Thursday. Pechiney late last year warned that it would slip back into the red on heavy provisioning for restructuring and for legal action against a subsidiary. In February this year it said that full-year turnover was down 4 per cent. Net income before the provision is seen at less than the FFr730m reported for 1995.

■ Weak stainless steelprices and increasing depreciation charges related to new investments coming on stream have hit profits at Spanish group **Acerinox**, according to analysts. They expect the group to report 1996 profits of Pta15bn-Pta18.9bn, down heavily from Pta34.4bn in 1995. However, the group remains upbeat on this year, with new capacity at US plants, a new production facility in Andalucia, and strengthening prices projected to offset cyclical weakness.

■ Similarly, Dutch steel group **Hoogovens** is expected on Thursday to report much weaker profits, at between Fl 280m and Fl 292m against Fl 507m. The figures last time included a one-off charge of Fl 17m. Weak prices and declining or flat volume sales in aluminium and crude steel are blamed for the steep fall.

Pechiney

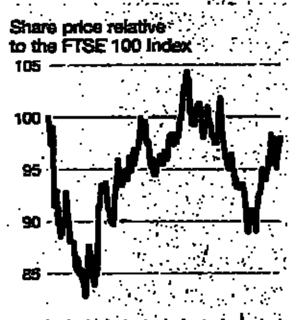
Share price relative to the SBF 120 index



Source: Datastream

Glaxo Wellcome

Share price relative to the FTSE 100 Index



Source: Datastream

■ **HSBC Holdings**, the international banking group which has recently taken over as the largest market capitalisation in the London index, will today emphasise that standing with pre-tax profits estimated at a hefty £4.4bn-£4.6bn, up from £3.67bn in 1995. Mortgage competition may have eroded margins in Hong Kong, but interest income is expected to have grown by nearly 15 per cent.

■ **Smith & Nephew**, the medical equipment company, is tomorrow expected to report rather subdued profit growth for last year. The main problem has been pricing pressure in the US as healthcare budgets have become tighter. Pre-tax profits are forecast at £185m, compared with £180.4m in 1995.

■ **British Biotech** will report its nine-month results to December on Wednesday, although analysts will be looking for announcements about the progress of the group's pipeline drugs.

■ **Cadbury Schweppes**, the soft drinks and confectionery group, is expected to report pre-tax profits before exceptionals of about £590m on Wednesday, up from £526m. The City of London will be expecting Mr John Sunderland, chief executive since September, to outline his plans to increase shareholder value.

■ **T&N**, the engineering group, is expected to report reduced underlying profits of £90m-£96m (£120.1m) for 1996 on Wednesday before asbestos provisions, insurance costs and expenses relating to its options over almost 25 per cent of Kolbenschmidt, the German pistons group.

■ Industry analysts expect **GKN**, the motor components, defence equipment and industrial services group, to announce legal provisions of £250m-£260m on Thursday when it unveils its 1996 figures.

Underlying pre-tax profits, nevertheless, are expected to rise 18 per cent to £365m.

■ **Glaxo Wellcome**, the drugs company, is expected to unveil pre-tax profits of about £2.95bn for last year on Thursday, an 18 per cent increase on 1995. Adverse currency movements may lead to lower figures. But, with its two leading drugs, Zantac and Zovirex, now facing generic competition, investors will be more interested in the growth rate of the rest of the portfolio. There should be some indication of how the large number of new product launches is depressing profit margins.

■ Analysts are expecting **Ladbroke** to report underlying pre-tax profits of £155m-£165m (£121m) for 1966 on Thursday. The rise is on the back of strong recovery in betting and good performance from international hotels. The market will want to know when Hiton Hotels Corporation is to take its 5 per cent stake in the company and whether Ladbroke will issue new shares.

INTERNATIONAL EQUITIES By Edward Luce

US doesn't buy the bought deal

The successful disposal of Société Générale de Belgique's 9 per cent stake in Accor, the French hotel group, last month has focused attention on the growing popularity of bought deals in the European market.

The $390m transaction, underwritten by SBC Warburg, followed a series of well-executed deals earlier this year.

Equity officials say that the bought deal, which enables vendors to offload unwanted crossholdings at speed, is one area where the "bulge bracket" of big US banks do not have a stranglehold. "Most American banks are strongly averse to the risks of bought deals because they have weaker balance sheets," said one syndicate manager in Paris. "But European banks see it as good business in a booming equity market."

In a bought deal, the underwriter buys the stake at a discount from the vendor with its own capital in the hope that it can sell it on for a profit in a matter of hours. The exercise differs from the book-building process which can take months and is usually syndicated among investment banks.

US bankers say the big European underwriters will take a more sceptical view after a bought deal has gone badly wrong. HSBC James Capel's problems last year when it was unable to sell the bulk of the 10 per cent stake in British Energy it acquired from the government was just a foretaste of what could go wrong, they say. "At the moment European equities are riding high so it seems like a good time to sell crossholdings," said one US banker. "But what will happen when a bank takes on a big stake and the market dives overnight?"

European bankers, though, are more troubled by the legal complications of bought deals. In France, the largest market for such transactions in Europe, privatised companies have first refusal on the divestment of hard core stakes – or *noyau dur* – in other privatised companies. Under this system, they have pre-emptive rights to buy stakes after the discounted share price has been set by the vendor. The risk that investors could be trumped at the last minute by an acquisitive crossholder has complicated recent deals.

"What the privatised French companies do is wait and see if the share prices goes up, in which case they'll buy," said one banker. "This means that we have to offer investors more in order to compensate for the risk."

In the disposal of its $200m stake in Elf Aquitaine last month, Paribas offered a choice between a more heavily discounted share price and a commission effectively to underwrite the shares. Investors overwhelmingly opted for the discount.

Another problem with the *noyau dur* stakes is that most US equity funds are debarred from holding derivatives despite that fact that no French company has so far chosen to exercise its pre-emptive rights.

Another complication is that major shareholders or former controlling shareholders face restrictions on selling their stakes in the US market. Under US law crossholders' stakes can be defined as new listings. Such restrictions do not exist in the UK. "There seems to be a cultural problem in the US with bought deals," said a European syndicate official. "It is a safe bet that it is a market which will continue to be dominated by Europeans."

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	FRIDAY FEBRUARY 28 1997 — US Dollar Index	%chg since 31/12/96	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/96	Gross Div. Yield	THURSDAY FEBRUARY 27 1997 — US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX — 52 week High	52 week Low	Year ago (approx)
Australia (76)	218.66	-1.5	198.69	166.82	191.91	187.38	0.6	4.05	220.94	201.32	168.83	194.06	188.70	224.61	188.44	198.30
Austria (24)	184.92	-2.6	168.03	141.07	162.30	162.23	6.7	1.80	186.13	169.60	142.23	163.51	163.45	195.04	174.70	188.77
Belgium (26)	235.38	3.4	213.88	179.57	206.58	202.15	13.3	3.23	235.28	214.38	179.79	206.66	202.21	238.54	203.84	212.52
Brazil (28)	232.74	22.7	211.49	177.56	204.27	450.26	24.1	1.35	232.74	212.07	177.85	204.45	450.16	242.07	147.48	162.88
Canada (114)	197.52	4.0	179.48	150.69	173.36	195.50	3.8	1.69	198.73	181.09	151.86	174.58	196.66	203.24	153.61	153.82
Denmark (32)	361.44	2.7	328.43	275.74	317.23	316.60	12.1	1.36	361.31	329.22	276.10	317.39	316.71	376.09	291.30	303.54
Finland (28)	259.02	5.5	235.36	197.60	227.33	273.69	15.2	1.94	262.02	238.75	200.23	230.18	276.70	263.12	174.47	182.57
France (91)	219.83	2.7	199.76	167.71	192.94	196.46	12.5	2.57	221.32	201.66	169.12	194.42	197.87	222.08	183.87	190.67
Germany (59)	195.72	3.0	177.84	149.31	171.78	171.78	12.8	1.51	196.27	178.84	149.98	172.41	172.41	196.27	164.47	173.42
Hong Kong (59)	489.47	-3.5	444.77	373.42	429.59	486.64	-3.4	3.20	494.48	450.56	377.86	434.37	491.61	514.49	402.53	438.53
Indonesia (27)	251.49	10.2	228.52	191.86	220.72	369.89	11.8	1.44	253.04	230.57	193.36	222.28	371.46	–	–	–
Ireland (16)	338.53	2.9	307.61	258.26	297.12	301.23	10.0	3.12	338.13	308.10	258.39	297.08	301.59	343.35	255.16	259.04
Italy (58)	84.44	1.1	76.73	64.42	74.11	108.58	12.4	1.99	86.35	78.68	65.98	75.85	108.34	86.32	70.61	76.61
Japan (480)	117.37	-8.1	106.65	89.54	103.01	89.54	-5.4	0.88	119.24	108.65	91.12	104.75	91.12	164.68	109.16	149.12
Malaysia (107)	654.83	8.6	595.03	499.57	574.72	626.21	6.7	1.01	653.55	595.51	499.42	574.11	624.98	660.85	512.47	519.44
Mexico (27)	1367.95	12.1	1243.02	1043.60	1200.61	11920.31	13.5	0.92	1397.56	1273.45	1067.96	1227.89	11965.95	1445.68	1046.55	1105.04
Netherland (19)	343.81	2.3	312.41	262.29	301.76	297.96	12.3	2.53	348.24	317.31	266.11	305.91	301.94	354.05	274.35	281.25
New Zealand (14)	86.05	-6.2	78.19	65.65	75.52	66.06	-4.2	4.28	85.71	78.10	65.50	75.30	65.93	95.60	75.94	81.63
Norway (41)	304.63	3.1	276.81	232.40	267.36	278.62	8.8	2.15	308.03	280.68	235.39	270.59	281.25	321.23	234.87	236.94
Philippines (22)	206.45	1.4	187.59	157.50	181.19	270.81	1.5	0.63	207.12	188.73	158.27	181.95	271.82	–	–	–
Singapore (43)	424.68	1.1	385.90	323.99	372.73	279.08	3.1	0.99	424.85	387.12	324.65	373.21	279.09	449.15	371.28	447.40
South Africa (44)	360.80	13.3	327.85	275.26	316.67	353.41	8.6	2.37	364.80	332.41	278.77	320.46	356.49	397.25	301.49	397.25
Spain (36)	207.83	-5.4	188.85	158.55	182.41	225.70	4.2	2.79	209.78	191.15	160.31	184.28	227.70	228.16	161.86	175.88
Sweden (49)	429.45	1.8	390.23	327.62	376.91	476.69	11.8	2.15	433.29	394.81	331.10	380.82	480.00	437.08	325.59	342.56
Switzerland (35)	246.68	3.4	224.15	188.19	216.50	225.57	13.6	1.32	247.80	225.80	189.36	217.68	227.20	254.34	229.36	232.82
Thailand (45)	82.19	-14.2	74.68	62.70	72.14	82.60	-13.3	4.11	81.44	74.21	62.23	71.54	81.82	187.79	75.46	179.56
United Kingdom (212)	281.80	-0.5	256.06	214.98	247.33	256.06	4.4	3.79	282.85	257.74	216.15	248.47	257.74	284.47	224.39	231.78
USA (654)	321.26	6.4	291.92	245.09	281.96	321.26	6.4	1.87	323.07	294.38	246.88	283.60	323.07	331.54	254.79	263.69
Americas (823)	294.20	6.5	267.33	224.44	258.21	247.58	6.5	1.85	295.88	269.61	226.10	259.92	248.95	303.45	233.09	240.50
Europe (725)	242.46	1.2	220.31	184.97	212.80	223.23	9.2	2.70	243.94	222.27	186.41	214.29	224.84	245.79	201.66	206.61
Nordic (150)	372.16	2.6	338.17	283.92	326.63	357.06	12.0	2.01	375.19	341.87	286.71	329.59	359.49	379.62	282.52	293.75
Pacific Basin (873)	138.52	-6.8	125.87	105.67	121.57	105.15	-4.0	1.37	140.36	127.89	107.26	123.30	106.65	177.01	131.50	162.66
Euro-Pacific (1598)	181.81	-2.5	165.21	138.70	159.57	149.75	3.0	2.11	183.50	167.20	140.22	161.19	151.29	191.51	178.40	180.89
North America (768)	313.77	6.3	285.12	239.38	275.39	312.97	6.3	1.87	315.55	287.53	241.13	277.20	314.74	323.69	248.65	258.91
Europe Ex. UK (513)	216.20	2.1	196.46	164.94	189.76	200.87	12.1	2.07	217.82	198.47	166.45	191.34	202.40	219.72	183.38	187.97
Pacific Ex. Japan (393)	314.91	-0.1	286.15	240.25	276.39	273.34	0.5	2.72	316.80	288.67	242.09	278.30	274.74	320.65	268.97	287.38
World Ex. US (1811)	185.50	-1.7	168.56	141.52	162.81	155.91	3.4	2.09	187.21	170.58	143.06	164.45	157.46	193.47	177.71	182.30
World Ex. UK (2253)	223.67	2.2	203.24	170.64	196.31	198.09	4.8	1.79	225.44	205.42	172.27	198.04	199.69	228.59	199.58	206.00
World Ex. Japan (1985)	285.57	4.3	259.49	217.86	250.64	275.23	7.0	2.19	287.27	261.75	219.52	252.85	276.91	291.77	233.10	239.43
The World Index (2465)	228.63	2.0	207.75	174.42	200.66	203.38	4.8	1.98	230.35	209.89	176.03	202.35	204.99	233.38	202.32	207.39

 Base values, Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 129.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Indonesia and Philippines June 28 1996 = 214.14 (US $ Index), 204.33 (Pound Sterling) and 184.40 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 28/2/97: Addition: The Energy Group (Medium-Small Cap) (UK). Deletion: Stadshypotek "A" (Sweden). Sector change: Hanson (Diversified Holding Companies - 171 to Building Materials - 611) (UK). Name change: USAir Group to USAirways Group (USA).

MARKETS: This Week

NEW YORK

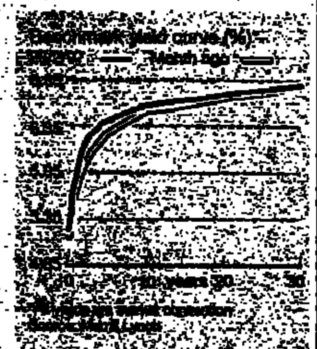
Mr Alan Greenspan, chairman of the Federal Reserve, cast his customary spell over the US bond markets last week. His argument to the Senate that tight labour markets could lead to higher inflation led to sharp falls in bond prices, and reawakened speculation that a rise in interest rates was due before long, but probably not this month.

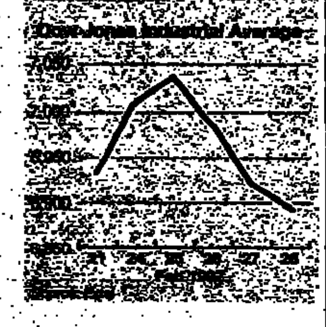
The yield on the 30-year Treasury long bond rose from 6.65 to 6.78 per cent on Wednesday, when Mr Greenspan made his speech, and continued to rise for the rest of the week. It finished the week at 6.802 per cent.

Stock prices did not react as strongly, except in the technology sector, which had powered most of their gains in the latter half of last year. The Nasdaq composite index fell through 1,300 at one point on Friday, having gone as high as 1,388.06 in January. Its Friday close of 1,309.00 was its lowest since the first week of the year.

A lot of economic data is expected this week, but trading is likely to be dominated by non-farm payrolls for February, to be announced on Friday.

MMS International, the research organisation, says the analysts' consensus is that payrolls will have





gained 223,000, a big rise helped by the mild winter. Hourly earnings are projected to have risen by 0.3 per cent, with an unemployment rate of 5.3 per cent.

CIBC Wood Gundy says the bond market has established a monthly pattern of price declines leading up to the payroll report, followed by a recovery when inflation proves positive, and says this pattern will repeat itself in March.

LONDON By Philip Coggan

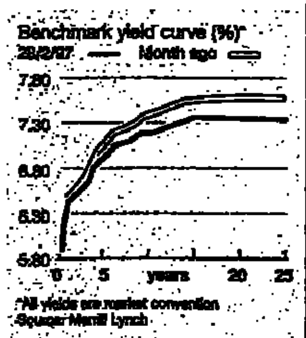
The UK market continues to cast a nervous eye across the Atlantic to Wall Street, where the Humphrey-Hawkins testimony of Mr Alan Greenspan, the chairman of the Federal Reserve, about the unsustainability of the US stock market's rise prompted falls last week.

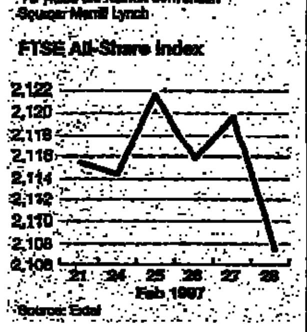
The domestic focus will be on corporate results. Everything else seems to be on hold. Although Mr Kenneth Clarke, chancellor of the exchequer, meets Mr Eddie George, the governor of the Bank of England, on Wednesday, almost no-one expects base rates to rise before the election.

Traders may accordingly pay some passing attention to figures on narrow money supply, M0, and consumer credit this week but, given the electoral constraints, the data are a touch irrelevant.

The poll itself is now widely expected to be on May 1, after the Conservative party's defeat in the Wirral south by-election and the decision by the Ulster Unionists not to try to unseat the administration.

However, there are plenty of results to keep traders busy, with ABP, BAT, BICC, BTR, Cadbury Schweppes, General Accident, GKN, Glaxo Wellcome, HSBC,





Ladbroke, Rolls-Royce and Royal & Sun Alliance all reporting. So far, the season has proceeded without a significant shock from a leading company, but with the market trading on a historic price-earnings ratio of over 18, healthy earnings growth is needed to justify current levels.

Brian Marber, the technical analyst, has turned short-term bearish about the UK following recent falls, but he does not think the bull market is yet over.

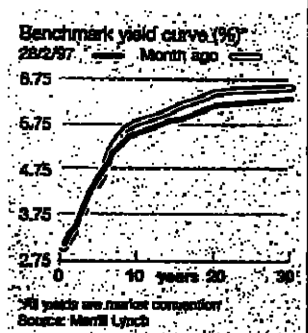
FRANKFURT By Sarah Althaus

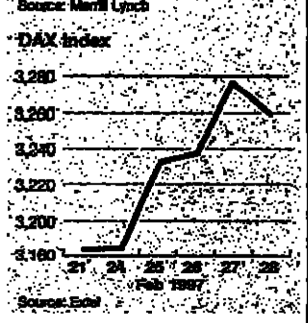
After hitting a record high on Thursday, the German stock market stuttered again at the end of last week amid weak signals from Wall Street and speculation – swiftly denied by the Bundesbank – that Germany was about to announce a delay to Emu.

Nevertheless, most participants remained optimistic the DAX blue chip index would resume its strong advance in the medium term. Despite shedding 17.08 points to 3,259.64 on Friday, the key index still managed a gain of more than 2 per cent over the week. The stronger dollar and recent favourable corporate earnings reports are buoying sentiment.

The market will be keeping a close eye on a slew of economic data due this week, notably February unemployment, fourth-quarter GDP and January industrial production. The main focus will be on the jobless figures, with the pan-German rate generally expected to hold steady at January's post-war high of 12.2 per cent. Analysts forecast a slight fall in the seasonally adjusted data, mainly because of better weather.

No surprises are expected from the Bundesbank's meeting on Thursday,





despite attempts by some council members last week to rekindle speculation of a further easing. Most analysts say that current growth in money supply and inflation preclude a rate cut.

J.P. Morgan adds that it expects "a broadly based pick-up in the real economic indicators in the coming three months" will "wipe out remaining hopes of monetary easing and establish a consensus that the economic upturn is gaining momentum".

TOKYO By Bethan Hutton

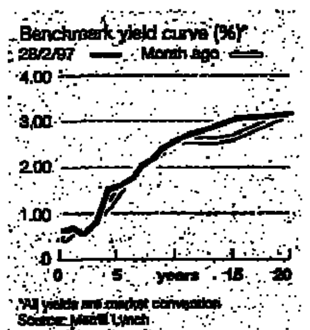
Last week the Nikkei see-sawed around the 19,000 mark, ending the week at 18,557.0, and local analysts are expecting the lack of a clear trend to continue at least for this week.

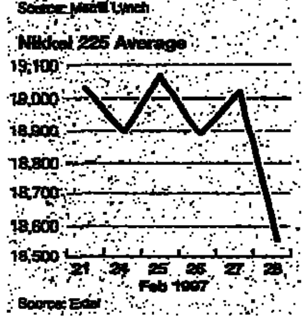
The yen/dollar exchange rate was a significant factor in last week's trading. Repatriation of overseas profits by Japanese companies before the March 31 financial year-end is expected to extend the yen's appreciation, at least in the short term, putting pressure on export-oriented shares.

One Tokyo-based strategist said equities were likely to stay at the lower end of the recent 17,500 to 22,000 Nikkei trading range for the foreseeable future, unless the authorities took serious steps to loosen up the labour markets or put greater pressure on the banks to restructure.

Limited market-boosting measures to improve corporate books and bank capital adequacy levels before the year end are possible, however.

In the short term, one Japanese commentator said that as Mr Alan Greenspan's comments on the US equity markets were digested, it could lead to some buying next week, as institutions shift some funds from US to Japanese equities.





The outlook on interest rates is stable. Comments by Mr Yasuo Matsushita, governor of the Bank of Japan on Friday were seen as indicating that there will be no rate rises in the near future, even though inflation is expected to rise in April when the consumption tax is raised from 3 to 5 per cent.

February vehicle registrations statistics are due today. Fourth-quarter GDP data could also be released this week but the date is not fixed.

COMMODITIES

Crop support prices in focus

Possible green currency revaluations for sterling and the Irish punt are commanding attention. Last Thursday they entered a third "confirmation period" for revaluations, and if they remain at their current rates through two further confirmation periods, revaluations will be set for March 29.

The green rates used to translate EU subsidies are translated from Ecu to local currencies – thus a revaluation causes a reduction in support prices.

If the revaluations go ahead, the green rates at that date would be recalculated to halve the gap between the market rate and the green rate. On last Friday evening's rates, that would entail a revaluation of sterling of about 8½ per cent, according to market experts at the Home Grown Cereals Authority.

The revaluations would follow earlier rises in the two currencies. Sterling was revalued by 5.4 per cent on January 21, and before that by 2.95 per cent in November last year. In January sterling just missed a double revaluation, as it was trading at nearly 10 per cent above the green rate.

However, a further revaluation might not have much impact on commodity prices in the short term. Cereals have been trading above intervention prices, which would be cut by a revaluation. The fall in sugar prices expected after the last revaluation failed to occur.

Milk prices could be affected in the UK, though. Milk Marque, a leading milk supplier, found buyers reluctant to enter long-term contracts in the latest selling round but has increased sales through more flexible short-term contracts.

The idea that a move to a single European currency might eliminate the complex agrimonetary system will be debated at a conference in London on Wednesday, held by Agra Europe London.

Mr Jean-Marc Gazagnes, manager of agrimonetary affairs at the EC's agriculture directorate, will discuss the system post-Emu, while other speakers will consider the effect of the change on the food industry and individual commodity sectors.

OTHER MARKETS Compiled by Jeffrey Brown

A week of nervous swings on Wall Street left the European stockmarkets looking uncertain on Friday. Traders were peering ahead cautiously to this week's widely-watched US non-farm payrolls data.

PARIS

Equities notched up a modest net gain over last week. There was a continued flow of solid company profits plus a dramatic bounce for the Club Med share price which added a fresh chapter to France's corporate restructuring story.

Yet there were signs on Friday that outside events had begun to impinge more readily on traders' thinking. Brokers admitted that the slide in US bonds had rattled sentiment.

Before last Wednesday's Humphrey-Hawkins testimony by Federal Reserve chairman Mr Alan Greenspan, the US long bond yield was standing at 6.47 per cent. By Friday it was above 6.8 per cent.

Retailers are a hot topic in France. The latest household consumption figures (for January) were very strong and the sector has been buoyed lately by all sorts of takeover talk.

Casino, the supermarket group, has been in the thick of the action, in spite of denials from the company of an impending deal with rival retailer, Promodes.

Both companies announce results this week: Casino on Thursday and Promodes a day later.

AMSTERDAM

Wednesday's figures from steel giant Hoogovens looks the most likely high spot of a busy week for company results in Amsterdam.

European steel shares have come in for something of a rerating in recent weeks, owing to an upbeat statement on steel prices from French leader, Usinor Sacilor.

A number of heavy-weight broker buy notes are known to be in circulation. Hoogovens' 1996 results are expected to be halved, but bulls of the sector are banking on an optimistic 1997 assessment from the group.

STOCKHOLM

Recent results news from the Nordic bloc have been disappointing. Norwegian investors have had to absorb a whole raft of indifferent results of late, while for Swedish investors the numbers from ABB and Sandvik were a visible body-blow.

Increasingly, the message from the Swedish corporate sector is that there are precious few indications that 1997 can produce an upturn in European demand.

Electrolux, which provided a clear pointer to last year's performance in January, puts out full 1996 results on Thursday.

Insurance leader Skandia weighs in on Wednesday: and Aga produces results today.

HONG KONG

Jitters over the possibility that interest rates might be raised could depress the stock market this week.

The benchmark Hang Seng index closed on Friday more than 1 per cent lower at 13,398.72 on worries about the trend of US interest rates following last week's warnings about pre-emptive rate increases by the US Federal Reserve chairman.

Dealers expect sideways trading, with investors remaining cautious.

Support for the market is seen at 13,000, and brokers reckon a strong performance from HSBC Holdings, the global banking group which reports its results today, could provide some underpinning. However, shares in both HSBC and its big subsidiary Hang Seng Bank fell steeply on Friday.

Other themes expected this week include property shares and China plays, the so-called red-chips.

The latter are continuing to outperform in the run-up to the June official handover of the colony to China.

Property shares will suffer from any rise in interest rates imported from the US in to Hong Kong via the currency peg.

CURRENCIES

US economic data watched for signs of rate rise

Last week Mr Alan Greenspan, chairman of the Federal Reserve, signalled that the Fed might raise interest rates soon. This week traders will be watching US economic data to see whether they give him any ammunition. Many expect a 25 basis point rate rise to follow the next Federal Open Market Committee meeting on March 25.

They will be confirmed in their belief on Friday if the US non-farm payrolls figures jump again. The market is expecting a rise of about 230,000 for February, slightly less than the increases for December and January. Other US data to watch this week are the National Association of Purchasing Managers' index, consumption figures and new home sales.

The US economy has been buoyant for years, but few signs of inflationary pressures have yet emerged.

However, last week the hawkish Mr Greenspan warned a Senate committee against "an upcreep in inflation" and refused to rule out a pre-emptive rate increase.

For more than a year the US discount rate has stood at 5 per cent and the Fed funds rate at 5.25 per cent.

It is uncertain whether growing prospects of a rate rise would add to the dollar's strength. However, such prospects would probably hit emerging markets' currencies, strategists said. The Mexican peso and most eastern European currencies suffered after Mr Greenspan's comments last week.

Few traders think Mr Kenneth Clarke, the UK chancellor, will raise base rates after Wednesday's monetary policy meeting with Mr Eddie George, governor of the Bank of England. No rate move is forecast before the election, due by May. However, if Labour then defeats the ruling Conservatives, the new government is expected to raise rates sharply.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
News Corp (Australia)/ EchoStar (US)	JV	Satellite broadcasting	$3.36bn	ASkyB venture
AEP (US)/PSC (US) 3	Yorkshire Electricity (UK)	Power	$2.45bn	Next to last REC goes
Shire Pharmaceuticals (UK)	Pharmavene (US)	Pharmaceuticals	$170m	US foothold
Partco (UK)	Unit of Dana Corp (US)	Auto components	$168m	Buying Europe arm
Terex Corp (US)	Unit of Simon Engineering (UK)	Engineering	$90m	Debt reduction deal
Navia (Norway)/Endress & Hauser (Switz)	Whessoe (UK)	Specialist instruments	$86m	Late move beats Siebe
Brooklyn Union (US)	Premier Transco/ Phoenix Natural Gas (UK)	Gas	$75m	Twin stakes

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, February 28, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)			£ STG	US $	D-MARK	YEN (X 100)			£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7736.40	4750.00	2815.73	3956.70	Greece	(Drachma)	431.891	264.720	156.811	219.339	Pakistan	(Pak. Rupee)(3)	65.3904	40.0799	23.7419	33.2080
[illegible]																	

ATHENS STOCK EXCHANGE Feb 24th - Feb 28th 1997 GREECE

				GDP (USD bn) 97e	122.95
ASE INDEX	1303.63	P/E (after tax) 97e/96e	13.3/15.1	Per Capita Income (USD)	11,822
%Chg (31/12/96)	39.85	EPS GROWTH (%) 97e	17.8	Inflation Rate (% Y.O.Y, January '97)	6.80
Yearly High	1454.89	P/E 97e/EPS GROWTH (%)97e	0.75	February 12 M T-Bill rate (%)	10.50
Yearly Low	870.86	P/CE 97e/96e	10.0/11.8	1-Month Athibor (%)	11.99
WEEKLY VOL. (USD m)	549.57	P/BV 97e/96e	2.7/3.0	GRD/US$	265.50
%Chg (Prev. Wk)	88.39	Div. Yield (%) 97e/96e	4.5/4.1		
1 Y Wk Avg. (USD m)	170.72			A.S.E. Market Capitalisation - 28/02/97 (USD bn)	30.35
				IPOs & Rights Issues (in USD m) Jan 1 '97-Feb. 28 '97	112.42

EMERGING MARKETS By Justine Newsome

Politics puts Ecuador on hold

Prospects for Ecuador's fledgling equity markets are uncertain after the recent political upheaval. On February 6, after two days of demonstrations and national strikes, congress voted out Mr Abdala Bucaram, the democratically elected president, and a few days later replaced him with Mr Fabian Alarcon as interim president until August 1998.

"At this stage it is very hard to tell what will happen in the market over the next six months. The country has done a good job of restoring stability quickly, so it depends on investor confidence in the new regime," says Ms Shannon Laughlin, an IFC market analyst.

After rising an average 4.2 per cent a month in the last quarter of 1996 the IFC dollar index for Ecuador fell 2.8 per cent in January. Local indices have since been flat.

Some local analysts see the depressed market as a buying opportunity. "If analysts look a bit more closely at Ecuador, they will see financial sector stocks that are undervalued," says Mr Marco Lopez, manager of stockbrokers, Prebursatil.

Most equity trading is concentrated in financial sectors. Only 42 companies are quoted on Ecuador's exchanges and five of the eight most actively traded are banks. The others are cement producer La Cemento Nacional; brewer Compañia de Cervezas Nacionales; and retailer Supermercados la Favorita.

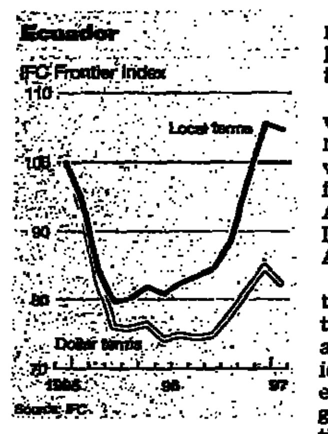
Morever, equities represented only 3 per cent, or $145.9m, of total trading. In a period of high interest rates, attention focused on bonds.

Development of the equity market requires big share issues, which could result from a privatisation programme, and for large institutional investors such as the central bank and armed forces' pension funds to participate, says Mr Lopez. The introduction of private pension schemes could be another source of liquidity.

The goverment plans to go ahead with privatisation of Emetal, but is opting for capitalisation and concessions to the private sector for the electricity industry and will cut Mr Bucaram's electricity tariff increases by 50 per cent.

Even Mr Bucaram was wary of tackling the politically sensitive issue of private pension provision, although the state system is seriously underfunded.

"The exchanges have been working very hard, for example on regulatory issues, but the real need is for overall economic infrastructure development and political stability," says Ms Laughlin. Until then, muted foreign interest in Ecuadorean equities is likely to limit their expansion.



At present the performance of Ecuador's Brady bonds, renegotiated external commercial bank debt, is a better guide to foreign investors' confidence than the local equity markets. The Bradys, however, are not yet traded in Ecuador.

Brady bond prices rose rapidly and spreads tightened at the end of 1996 and early this year, reflecting external confidence in the Bucaram government's economic reform programme, announced in December.

However the bonds weakened as it became clear that Mr Bucaram's political support was failing fast and the prospects for implementation of the plan dimmed.

Prices dropped 7 per cent when Mr Bucaram was removed, but have risen with subsequent market-friendly statements by Mr Alarcon, says Ian Campbell, Latin American economist at ABN-Amro in Amsterdam.

Spreads are expected to tighten over the next three to six months, but this may all fall apart as the 1998 presidential and congressional elections approach and congress becomes more obstructive, he warns.

The political upheavals have had only a limited effect on the Bradys, says one Wall Street analyst. For example, spreads are only 20 points wider now than at the peak of the market euphoria which greeted Mr Bucaram's economic programme.

"The current political arrangement has satisfied the basic requirements of the market, but the government does have difficulties and these will increase," he says, expecting spreads to widen on disillusionment with the slowness of reform.

Unveiling his economic programme on Friday night, Mr Alarcon admitted it would be difficult to find solutions to Ecuador's structural problems in just one year. The gradualist plan's prime aims are to reduce the 1997 fiscal deficit from a potential 6.6 per cent to 2.5 per cent of GDP, paving the way for economic recovery.

The government plans to slow accelerating inflation from 32 per cent in February to 20–23 per cent by the end of 1998, and generate real GDP growth of 3.5 per cent this year and 4 per cent next.

The government's short term in office, the circumstances in which it was appointed, and the approaching elections, all place political constraints on policy-making and implementation.

Opposition to austerity measures and privatisation was one motivation for the national strike which precipitated Mr Bucaram's fall. The government must now walk a tightrope between this opposition and the need for structural reform.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	28/02/96	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (449)	177.83	−0.53	−0.35	+8.495	+5.01	+17.72	+11.07
Latin America							
Argentina (22)	117.81	−0.52	−0.44	+7.68	+6.97	+10.68	+9.97
Brazil (24)	323.33	+0.36	+0.11	+37.05	+12.94	+62.30	+23.87
Chile (16)	195.23	+3.91	+2.04	+20.36	+11.64	+32.78	+20.18
Colombia (13)	215.01	+2.77	+1.31	23.50	+12.27	+41.32	+23.79
Mexico (27)	93.68	−2.40	−2.49	+3.12	+3.44	+12.00	+14.70
Peru (12)	1,168.79	+16.75	+1.45	+60.71	+5.48	+161.57	+16.04
Venezuela (6)	66.55	+1.85	+2.85	+6.77	+11.32	+4.37	+7.03
Latin America (119)	170.17	−0.43	−0.25	+14.49	+9.31	+26.67	+18.59
Europe							
Czech Rep.(14)	113.12	−7.13	−5.93	+7.60	+7.20	+8.84	+8.48
Greece (20)	153.11	−3.03	−1.94	+16.66	+12.21	+40.60	+36.33
Poland (25)	393.76	−14.87	−3.64	+12.90	+3.39	+50.51	+14.55
Portugal (18)	163.65	−1.47	−0.89	+4.10	+2.57	+17.50	+11.97
South Africa (30)	145.91	−0.24	−0.16	+11.55	+8.60	+16.03	+12.34
Turkey (27)	179.26	−2.30	−1.26	−6.29	−3.39	+54.22	+43.36
Europe (134	137.67	−1.54	−1.11	+8.21	+6.34	+19.33	+16.33
Asia							
China (27)	56.13	+2.67	+5.39	+2.68	+5.01	−0.36	−0.63
Indonesia (30)	165.21	−2.69	−1.60	−3.07	−1.82	+8.78	+5.61
Korea (23)	81.28	−3.22	−3.81	−2.14	−2.57	+0.07	+0.09
Malaysia (24)	280.27	−0.44	−0.16	+4.64	+1.68	−0.15	−0.05
Pakistan (13)	73.50	−6.74	−8.40	+3.06	+4.35	+15.04	+25.74
Philippines (18)	329.11	+2.94	+0.90	−2.26	−0.68	+15.32	+4.88
Taiwan (31)	201.00	+4.45	+2.26	+12.73	+6.76	+15.56	+8.39
Thailand (28)	136.11	−4.22	−3.01	−23.23	−14.58	−19.05	−12.28
Asia (193)	222.79	−0.18	−0.08	+1.07	+0.48	+5.22	+2.40

All indices in $ terms. January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By Conner Middelmann

Bulls see hope in emergings market fall

The year-long bull run in emerging market bonds was interrupted last week as investors, spooked by fears of US monetary tightening, decided to take some hefty profits.

However, by Friday afternoon, many observers agreed that the sell-off did not herald the beginning of the end for the emerging markets, but represented, if anything, an opportunity to enter these markets at more attractive prices.

"This is not about credit fundamentals – it's about US interest rates and market dynamics," said Mr Jerome Booth, head of emerging markets research at ANZ Investment Bank.

Selling was particularly heavy on Friday, and by the end of the week yield spreads of emerging market bonds over US Treasuries had widened significantly.

The weaker credits – Bulgaria, Venezuela and Ecuador in particular – got the worst pounding. Brady bonds – securities issued in exchange for distressed commercial bank debt – and eurobonds posted similarly sharp losses, but long-dated global bonds fared worst, traders said.

For example, Mexico's global bond due 2026 fell by nearly 7 points, its yield spread over US Treasuries widening by about 50 basis points to 340 points. In the Brady market, many bonds shed more than 3 points, with even Poland's discount bonds, which are usually very stable, slipping by about a point.

Profit-taking was triggered by last Wednesday's hawkish testimony to US Congress by Federal Reserve chairman Alan Greenspan, in which he warned of possible pre-emptive policy tightening. Bearish sentiment was exacerbated by the threat of Mexico's de-certification by the US government over co-operation in the war on drugs, which, if implemented, could lead to economic sanctions.

J.P. Morgan's Emerging Market Bond Index, quoted on a spread basis over US Treasuries, widened to 450 basis points on Friday, from 390 points on Wednesday, before Mr Greenspan's speech. J.P. Morgan expects that spread to narrow to 350 points by year-end, assuming a 75 basis point increase in US interest rates by the Fed over 1997.

However, even when US rates do rise, most observers said they did not expect a re-run of the emerging market bloodbath of 1994, when the bull run of 1993 screeched to a halt after the Fed's surprise decision to raise rates. Investors – many of them short-term players – who had piled into the high-yielding assets quickly pulled out of the emerging markets, leaving them to fall sharply.

"I don't expect to see a repeat of 1994," said Mr Peter West, economic adviser at West Merchant Bank. "Even if US rates rise, they won't do so to the same extent as in 1994, when the Fed Funds rate was raised six times from 3 to 6 per cent."

He does warn, however, that the eventual tightening may initially spark a negative reaction, with dealers fearing more than a pre-emptive tweaking of interest rates. Overall, however, most observers expect US interest rate tightening to be gradual, given that inflation indicators in the US remain moderate. Furthermore, Mr West says, "the regional credit story is much stronger now than it was in 1994".

Indeed, economists are predicting strong growth in most emerging economies for 1997; inflation pressures in many countries are easing; budget deficits are coming under control, and the political situation is much more stable, forthcoming elections in Argentina and Mexico notwithstanding.

Investors have also changed. While the 1993 emerging-market boom attracted a lot of speculative players, many investors are now more knowledgeable about these markets and committed for the long haul, attracted not just by the juicy yield pick-up these assets offer, but also by their positive underlying credit fundamentals.

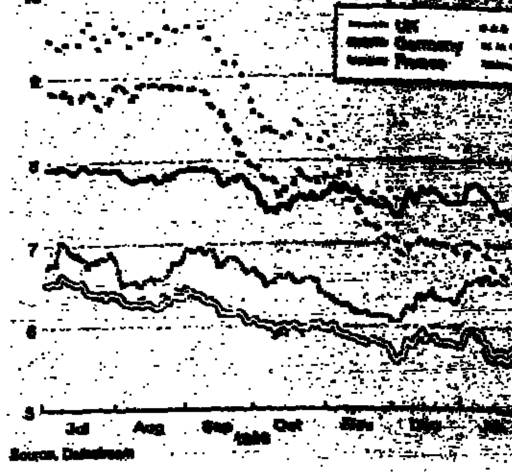
"Even if the US long bond yield went to 8 per cent, we'd still have very good investment arguments for emerging market debt versus other major asset classes," says Mr Booth at ANZ.

Following last week's sell-off, the combination of widening yield spreads and a constructive long-term fundamental story means that "circumstances are building for bargains to be had - the only question is: when is the right time to get back in?" said Mr Richard Gray emerging markets economist at Bank of America.

He predicts more volatile trading over the next few weeks until the Fed's next Open Market Committee meeting in late March. Once the dreaded rate rise is out of the way, emerging market bonds could resume their upward trajectory, he says.

Others expect the market to rebound more quickly. "Over the last few months, a lot of investors have been looking to buy emerging market bonds on dips," says Mr Booth at ANZ. "This is an excellent opportunity and I expect that we'll see some good buying [today]."

He predicts a full correction of the sell-off in a week or so, subject to developments on the US long bond.



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.10[1]	6.75	[illegible]
Overnight	n/a	n/a	3.50	3.15	7.06	[illegible]
Three month	5.50	0.50	3.16	3.29	7.25	[illegible]
One year	5.67	0.58	3.21	3.34	[illegible]	[illegible]
Five year	6.39	1.36	4.48	4.51	[illegible]	[illegible]
Ten year	6.55	2.40	5.57	5.65	7.36	[illegible]

(1) France-intervention rate. (2) UK-Base rate. Source: Bloomberg

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
PLDT	300	Mar 2017	8.35#	99.624R	8.389	+170(6½%-Nov26)	Goldman Sachs & Co
PLDT	200	Mar 2007	7.85#	99.924R	7.861	+150(6¼%-Feb07)	Goldman Sachs & Co
Deutsche Ausgleichsbank	300	Mar 2002	6.25	99.482R	6.379	+10(1M 5yr)	Deutsche/Merrill Lynch
Svenska Handelsbanken(a)‡	350	undated	(a1)	99.696R	-	-	Merrill Lynch Intl
Cie Générale des Eaux(b)	700	Apr 2003	zero	100.00	-	-	Banque Indosuez
CIT Investments(s)	50	Mar 2000	8.10#	100.96R	7.735	+173(5⅞%-00)	Citibank International
Abbey Natl Treasury Services	750	Mar 2002	6.375	99.746R	6.435	+18(1M 5yr)	Merrill/Nomura Intl
BNG	250	Mar 2001	6.125	99.89R	6.157	+8(5⅝%Feb00)	ABN Amro/DKB Intl
Bayerische Vereinsbank(l)	250	Mar 2001	6.125	99.64R	6.229	+15(5⅞%-00)	Paribas Capital Markets
National Australia Bank	250	Mar 1999	6.00	99.915R	6.046	+18(1M 2yr)	Salomon Brothers Intl
Swedish Export Credit★	120	Mar 2009	5.40#	100.00	5.400	-	IBJ Intl/New Japan
World Bank(d)‡	100	Mar 2007	(d1)	99.825R	-	-	BCM/Lehman Brothers
Rabobank Nederland(e)	100	Mar 2001	6.00	99.67R	6.095	+25(5⅞%Feb00)	SBC Warburg
Romanian Commercial Bank	75	Mar 2000	9.125	99.857R	9.182	+300(5⅞%-00)	Merrill Lynch Intl
AGF Brasil(f)	50	Mar 2005	(f1)§	100.25R	8.030	+205(5⅞%-00)	Société Générale
Spintab(g)‡	800	Mar 1999	(g)	100.0115	-	-	Lehman Brothers
Ne NIB(s)	280	Dec 2000	6.25	100.076R	6.237	+12(5⅞%Feb00)	Morgan Stanley Intl
GECC	250	Mar 2001	6.25	99.841R	6.296	+4(5⅞%Feb00)	Nikko Europe
ING Bank	250	Mar 2000	6.25	99.75R	6.344	+8(5⅞%Feb00)	PaineWebber Intl(UK)
Pailburg Finance(n)§	210	Mar 2002	zero	100.00	-	-	Jardine Fleming
Toronto-Dominion Bank(o)‡	200	Mar 2007	(o1)	99.769R	6.808	+37(6¼Feb02)	Citibank/M Stanley
Morgan Guaranty Tst Co of NY	250	Mar 2001	6.375	99.728R	6.455	+18(5⅞Feb00)	JP Morgan Securities
Delta Electronics(p)§	180	Mar 2009	0.50	100.00	-	-	UBS(East Asia)
First Intl Computer(y)§	80	Mar 2004	1.00	100.00	-	-	BZW
Intl Container Terminal(z)§	63	Mar 2004	1.75	100.00	-	-	Jardine Fleming
D-MARKS							
Republic of Argentina	1.5bn	Mar 2004	7.00	99.625R	7.070	+195(6¼%-04)	Dresdner/SBC Warburg
DSL Finance	1bn	Mar 2009	5.75	98.926R	5.877	+32(6%Feb07)	Commerzbank/CSFB
Korea Export-Import Bank‡	500	Mar 2002	(q)	99.96R	-	-	DG Bank
LW Rentenbank(s)	300	Dec 2003	5.00	99.631R	5.062	+12(6%Sep03)	ABN Amro Hoare Govett
DSL Finance(k,s)	100	Dec 2001	4.50	101.44	-	-	SBC Warburg
Republic of Iceland‡	150	Mar 2000	(t)	99.947R	-	-	CSFB/Salomon Brothers
Merrill Lynch & Co‡	250	Mar 1999	(A)	100.00R	-	-	Merrill Lynch(Deutsch)
YEN							
LB Schleswig-Holstein(u)★	20bn	Mar 2001	4.20#	100.00	-	-	Wako Intl(Europe)
BGB Finance(Ireland)(r)	10bn	Mar 2007	3.36#	100.00	-	-	CSFB
International Endeavor(s)★	25bn	Sep 2000	5.80	100.00	-	-	Daiwa Europe
FRENCH FRANCS							
BGB Finance (Ireland)	1.5bn	Mar 2009	5.75	98.738R	5.900	+38(l)	CDC/JP Morgan
Hydro Quebec	1.5bn	Mar 2008	5.875	99.86R	5.900	+44(l)	Société Générale
European Investment Bank‡	1.3bn	Mar 2007	(l)	100.80B	-	-	Goldman Sachs Paris
Council of Europe(m)	900	Mar 2007	(m1)	100.00R	4.739	+23(4¼%Mar02)	Merrill Lynch Finance
Rheinische Hypothekenbank	750	Mar 2009	5.00	99.874R	6.015	+47½(l)	CCF/Bqe Louis Dreyfus
SWISS FRANCS							
City of Copenhagen	100	Apr 2004	3.00	101.88	2.714	-	UBS

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
STERLING							
Finnish Export Credit(g)★	250	Mar 2000	6.25#	99.10	6.586	-	Yamaichi Intl(Europe)
Oesterreichische Kontrollbank	100	Mar 2000	5.00	97.0531R	5.616	+40(7%Aug99)	Commerzbank/Paribas
Federal Home Loan Banks(s)	300	Jan 2002	6.875#	99.558R	6.981	+40(7%Jan02)	Goldman Sachs Intl
Vodafone(s)	250	Mar 2004	7.50	99.2338	7.646	+45(6¾Nov04)	BZW/UBS
LB Schleswig-Holstein	100	Apr 2008	6.75	99.6258	6.853	+27(8%Aug08)	Hambros Bank
ITALIAN LIRE							
Crédit Local de France(c)	200bn	Jan 2002	6.75	101.93	6.268	-	Paribas Capital Markets
HGM International‡	150bn	Mar 2001	(i)	99.50R	-	-	IMI Bank Luxembourg
LUXEMBOURG FRANCS							
LB Rheinland-Pfalz(s)	2bn	Dec 2005	5.375	102.50	5.02	-	BGL/KB Intl Group
PESETAS							
LW Rentenbank‡	10bn	Mar 2007	(w)	101.375	-	-	Caja de Madrid/UBS
NEW ZEALAND DOLLARS							
KfW International Finance	100	Mar 2002	7.375	101.10	7.106	-	Hambros Bank
Dresdner Finance	100	Mar 2001	7.75	101.125	7.415	-	Toronto Dominion Bank
World Bank	100	Apr 2000	7.50	100.865	7.169	-	Hambros Bank
DANISH KRONER							
European Investment Bank	400	Apr 2005	(h)	101.90	5.59	-	Kredietbank Intl Group
Bacob Overseas(j)	400	Oct 2003	6.00	102.00	5.60	-	[illegible]/Bacob Bank
Bremer LB Capl Markets(s)	400	Dec 2002	5.50	101.92	5.11	-	BBL/AK
CZECH KORUNA							
SudwestLB Capital Markets	1bn	Mar 1998	10.50	99.55R	10.56	-	Deutsche Morgan Grenfell
LW Rentenbank	1bn	Mar 1998	10.875	100.00R	10⅞	-	Morgan Stanley Intl
SOUTH AFRICAN RAND							
World Bank(w)	300	Mar 1998	16.00	100.00R	16.00	-	ABN Amro Hoare Govett
International Finance Corp(β)	800	Mar 2007	zero	28.50	13.37	-	Hambros Bank
GREEK DRACHMAS							
GECC	15bn	Mar 1999	9.50	99.983R	9.510	-	SBC Warburg

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ‡With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Callable from Mar 02 at par. a1) 3-mth Libor +50bp to Mar 02, then +200bp. b) Redeemed at par plus Générale des Eaux stock performance. c) Fungible with L300bn. Plus 60 days accrued. d) Callable in Mar 02 at par. d1) 6.6% to 25/3/02, then 13% – 12-mth Libor, min 4%. e) $250m launched 11/2/97 was increased to $350m. f) Callable & puttable on 10/3/00 & 02 at par. f1) 8¼% to 10/3/00, then 9% to 10/3/02, then 9½%. g) 3-mth Libor +15bp. h) 4¼% to 18/3/02, then Tec-10 –42bp. i) Over interpolated yield. j) 3-mth Libor flat. k) DM250m launched 6/2/97 was increased to DM350m. l) Long 1st coupon. m) Callable on 19/3/02 at par. m1) 4.73% to 19/3/02, then 7%. n) Exchangeable into Pailburg Intl shares at HK$10.50. Callable from Mar 00, subject to 145% hurdle. Redemption price: 145.875%. Greenshoe: $31.5m. o) Callable from 27/3/02 at par. o1) 6¾% to 27/3/02, then 3-mth Libor +100bp. p) 3-mth Libor –⅛%. q) Redeemed in Y or US$. r) Coupon paid in US$. s) Short 1st coupon. t) 3-mth Libor +50bp. u) 7% to 25/3/01, then 12.45% - 12-mth DM Libor, min 3%. v) 5% to 7/4/01, then 7%. w) Includes R100m increases at parR and 100.10R. x) Conversion price: NT$110. FX: 27.515NT$/US$. Puttable in 5 yrs at 137.30%. Callable after 3 yrs subject to 140% hurdle. Greenshoe: $10m. y) Conv price: NT$67.98. FX: 27.525NT$/US$. Puttable on 30/4/02 at 138.1216%. Callable from 30/4/00, subject to 140% hurdle, at par. Greenshoe: $8m. z) Conv price: Phil pesos 17.875. FX: 26.33pesos/$. Puttable on 13/3/02 at 135.75%. Callable from 13/3/00 subject to 140% hurdle. Greenshoe: $8m. A) 1-mth Libor +5bp. β) Includes R500m on 13/2/97 at 28% and R200m on 20/2/97 at 28.80%. Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

Feb 28	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	$3\frac{1}{4} - 3$	$3\frac{11}{32} - 3\frac{11}{32}$	$3\frac{3}{8} - 3\frac{11}{32}$	$3\frac{9}{16} - 3\frac{11}{32}$	$3\frac{3}{8} - 3\frac{11}{32}$	$3\frac{3}{8} - 3\frac{11}{32}$
Danish Krone	$3\frac{19}{32} - 3\frac{13}{32}$	$3\frac{21}{32} - 3\frac{7}{16}$	$3\frac{5}{8} - 3\frac{1}{2}$	$3\frac{5}{8} - 3\frac{17}{32}$	$3\frac{11}{16} - 3\frac{9}{16}$	$3\frac{25}{32} - 3\frac{11}{16}$
German Mark	$4\frac{1}{8} - 3\frac{7}{8}$	$3\frac{1}{8} - 2\frac{7}{8}$	$3\frac{1}{32} - 2\frac{15}{16}$	$3\frac{1}{32} - 2\frac{15}{16}$	$3\frac{1}{16} - 2\frac{7}{8}$	$3\frac{3}{8} - 3\frac{1}{8}$
Dutch Guilder	$3\frac{1}{16} - 3$	$3\frac{1}{32} - 2\frac{15}{16}$	$3\frac{3}{32} - 3\frac{1}{32}$	$3\frac{3}{16} - 3\frac{1}{16}$	$3\frac{11}{32} - 3\frac{7}{32}$	$3\frac{7}{16} - 3\frac{5}{16}$
French Franc	$3\frac{5}{16} - 3\frac{3}{16}$	$3\frac{3}{32} - 3\frac{5}{16}$	$3\frac{11}{32} - 3\frac{3}{16}$	$3\frac{11}{32} - 3\frac{7}{32}$	$3\frac{3}{8} - 3\frac{1}{4}$	$3\frac{7}{16} - 3\frac{5}{16}$
Portuguese Esc.	$6\frac{1}{2} - 6\frac{3}{8}$	$6\frac{1}{2} - 6\frac{13}{32}$	$6\frac{13}{32} - 6\frac{5}{16}$	$6\frac{3}{16} - 6\frac{1}{16}$	$6\frac{1}{32} - 6$	$6\frac{1}{16} - 5\frac{15}{16}$
Spanish Peseta	$5\frac{15}{16} - 6\frac{29}{32}$	$6\frac{3}{32} - 6$	$6\frac{3}{32} - 6$	$6\frac{1}{16} - 6\frac{1}{32}$	$5\frac{31}{32} - 5\frac{31}{32}$	$5\frac{31}{32} - 5\frac{29}{32}$
Sterling	$6 - 5\frac{7}{8}$	$6 - 5\frac{7}{8}$	$6\frac{1}{16} - 6$	$6\frac{3}{16} - 6\frac{1}{8}$	$6\frac{3}{8} - 6\frac{5}{16}$	$6\frac{11}{16} - 6\frac{5}{8}$
Swiss Franc	$2\frac{1}{4} - 1\frac{3}{4}$	$1\frac{11}{16} - 1\frac{7}{16}$	$1\frac{9}{16} - \frac{15}{16}$	$1\frac{23}{32} - 1\frac{19}{32}$	$1\frac{23}{32} - 1\frac{19}{32}$	$1\frac{7}{16} - \frac{15}{16}$
Canadian Dollar	$3\frac{1}{16} - 2\frac{7}{8}$	$3\frac{1}{16} - 2\frac{7}{8}$	$3\frac{1}{32} - 2\frac{27}{32}$	$3\frac{3}{32} - 3\frac{1}{16}$	$3\frac{3}{8} - 3\frac{1}{4}$	$3\frac{3}{4} - 3\frac{5}{8}$
US Dollar	$5\frac{9}{16} - 5\frac{7}{16}$	$5\frac{3}{8} - 5\frac{1}{4}$	$5\frac{7}{16} - 5\frac{5}{16}$	$5\frac{17}{32} - 5\frac{13}{32}$	$5\frac{11}{16} - 5\frac{19}{32}$	$5\frac{31}{32} - 5\frac{27}{32}$
Italian Lira	$7\frac{3}{8} - 7$	$7\frac{3}{8} - 7\frac{1}{8}$	$7\frac{7}{16} - 7\frac{5}{16}$	$7\frac{3}{8} - 7\frac{1}{4}$	$7\frac{5}{16} - 7\frac{3}{16}$	$7 - 6\frac{7}{8}$
Japanese Yen	$\frac{9}{16} - \frac{7}{16}$	$\frac{9}{16} - \frac{7}{16}$	$\frac{7}{16} - \frac{11}{32}$	$\frac{5}{8} - \frac{1}{2}$	$\frac{5}{8} - \frac{1}{2}$	$\frac{13}{16} - \frac{9}{16}$
Asian $Sing	$3\frac{1}{4} - 3\frac{1}{8}$	$3 - 2\frac{7}{8}$	$3\frac{1}{16} - 2\frac{15}{16}$	$3\frac{1}{16} - 2\frac{15}{16}$	$3\frac{1}{8} - 3$	$3\frac{1}{4} - 3\frac{1}{8}$

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.43	94.43	+2.36	94.44	94.42	81,554	374,530
Jun	94.23	94.21	-0.09	94.23	94.18	144,750	406,090
Sep	94.02	94.00	-0.22	94.03	93.97	160,207	307,388

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

Mar	94.95	94.92	-0.02	94.94	94.91	739	4,157
Jun	94.77	94.77	-0.01	94.78	94.75	723	4,364
Sep	94.59	94.56	-0.01	94.59	94.56	78	1,511

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

Feb 28	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	$6\frac{1}{8} - 5$	$6 - 5\frac{3}{4}$	$6\frac{1}{16} - 5\frac{31}{32}$	$6\frac{1}{4} - 6\frac{1}{16}$	$6\frac{7}{16} - 6\frac{5}{16}$	$6\frac{11}{16} - 6\frac{9}{16}$
Sterling CDs	-	-	$6\frac{1}{16} - 6$	$6\frac{3}{32} - 6\frac{1}{32}$	$6\frac{9}{32} - 6\frac{7}{32}$	$6\frac{9}{16} - 6\frac{1}{2}$
Treasury Bills	-	-	$5\frac{15}{16} - 5\frac{7}{8}$	$6\frac{1}{16} - 6$	-	-
Bank Bills	-	-	$5\frac{15}{16} - 5\frac{7}{8}$	$5\frac{31}{32} - 5\frac{29}{32}$	$6\frac{3}{16} - 6\frac{1}{8}$	-
Local authority deps.	$5\frac{13}{16} - 5\frac{11}{16}$	$5\frac{15}{16} - 5\frac{13}{16}$	$6\frac{1}{16} - 6$	$6\frac{3}{16} - 6\frac{1}{16}$	$6\frac{5}{16} - 6\frac{3}{16}$	$6\frac{9}{16} - 6\frac{7}{16}$
Discount Market deps	$6\frac{1}{16} - 5\frac{7}{8}$	$5\frac{15}{16} - 5\frac{7}{8}$	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	$2\frac{1}{2}$	$5\frac{1}{2}$	5	5	$4\frac{3}{4}$

Certs of Tax dep. under £100,000 is $2\frac{1}{2}$pc. Deposits withdrawn for cash $1\frac{1}{4}$pc.
Ave. tender rate of discount on Feb 21, 5.8591pc. ECGD fixed rate Stg. Export Finance. Make up day Feb 28, 1997. Agreed rate for period Mar 26, 1997 to Apr 21, 1997, Scheme III 7.53pc. Reference rate for period Feb 1, 1997 to Feb 28, 1997, Schemes IV & V 6.286pc. Finance House Base Rate $6\frac{1}{2}$pc from Feb 1, 1997

BANK OF ENGLAND TREASURY BILL TENDER

	Feb 28	Feb 21
Bills on offer	£400m	£400m
Total of applications	£2170m	£2869m
Total allocated	-	£400m
Min. accepted bid	£98.560	£98.560
Allotment at min. level	-	97%

	Feb 28	Feb 21
Top accepted rate	5.7758%	5.7758%
Ave. rate of discount	5.7574%	5.7748%
Average yield	5.8413%	5.8591%
Offer at next tender	£400m	£400m
Min. accept. bid 92 days	-	-

■ Pound in New York

Feb 28	--Close--	-- Prev. close --
£ spot	1.6290	1.6255
1 mth	1.6281	1.6246
3 mth	1.6263	1.6228
1 yr	1.6185	1.6154

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Irish Bank (GB)	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	Scottish Widows Bank	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	6.00
Bank of India	6.00	Heritable & Gen Inv Bk.	6.00	Western Trust	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Barclays Bank	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
●Brown Shipley & Co Ltd	6.00	Investec Bank (UK) Ltd	6.00	● Members of London Investment Banking Association	
Citibank NA	6.00	Julian Hodge Bank	6.00		
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00	* In administration	
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	6.00		

OTHER STATISTICS

STOCK INDICES

[illegible]

BANK RETURN

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FT GOLD MINES INDEX

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CONTRACTS & TENDERS

PETRÓLEO BRASILEIRO S.A.
PETROBRAS

Bolivia-Brazil Gas Pipeline

INTERNATIONAL COMPETITIVE BIDDING

CONSTRUCTION AND ASSEMBLY OF THE SPECIAL CROSSINGS
BID Nº 578-9-012-97

Petróleo Brasileiro S.A. - PETROBRAS, shall contract through the bidding documents nº 578-9-012-97 the construction and assembly of the special crossings portion of a pipeline from Santa Cruz de La Sierra, Bolivia, to Porto Alegre - RS, Brazil.

The Brazilian Government has requested financing from the Interamerican Development Bank (IDB) and the International Bank for Reconstruction and Development (IRDB) for this project.

Bidding will be conducted through the international competitive bidding policies and procedures of the IDB and is open to all bidders from eligible countries as defined in these guidelines.

As of today, PETROBRAS will make bidding documents available to prospective eligible bidders for the construction and assembly of the above mentioned special crossings.

Interested eligible bidders may obtain further information and inspect the bidding documents at the following addresses:

BRAZIL: PETRÓLEO BRASILEIRO S.A.
SEGEN / GASBOL
Rua General Canabarro, 500 - 6º andar
Rio de Janeiro - Brazil
Fax: 55-21-566-5723 / 5299

BOLIVIA: PETROBRAS BOLIVIA S.A.
3er Anillo entre Av. Piraí y Av. Grigotá
Complejo Diamond Shamrock
Santa Cruz de La Sierra - Bolivia
Fax: 591-3-52-8507

The interested bidders may, through a written request to PETROBRAS, purchase a set of the bidding documents upon a payment of a non refundable fee equivalent to US$ 1,500 (One thousand five hundred United States dollars). It will not be necessary to be present to receive a complete set of the bidding documents, whereas these can be sent by mail.

Bids must be delivered to the above address in Brazil, on or before April 21, 1997, 12:00 am, local time, and must be accompanied by a bid bond of 2.0% of the bid amount. It will not be necessary to submit bids in person; however, if sent by mail, PETROBRAS does not hold responsability for not receiving them on or before the time and date specified for reception of bids. Late bids will be rejected and returned unopened.

Bids will be opened in public opening act, in the presence of bidders representatives who choose to attend, on April 21, 1997, at 03:00 pm, local time, at the above Brazilian address already mentioned.

PETRÓLEO BRASILEIRO S.A.
PETROBRAS

Engineering Service

BIDDING POSTPONEMENT NOTICE
INTERNATIONAL BIDDING Nº 569-9-004-96

Scope: International Bidding for contracting engineering services for setting up the Atmospheric Residue Fluid Catalytic Cracking Unit, Solvent Dearomatization Unit, Solvent Unit, Sour Water Treatment Unit, Cooling Tower and other Utilities at Capuava Refinery - RECAP, in the Municipality of Mauá, State of São Paulo, Brazil. Bids will be opened on March 12, 1997 at 10:00 am, in the Bidding Room of PETROBRAS, at Rua General Canabarro, nº 500 - ground floor - Rio de Janeiro - RJ.

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
Sterling Floating Rate Notes due 1997

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the period from February 28th, 1997 to May 30th, 1997, has been fixed at 6.3750 per cent. per annum.
On May 30th, 1997 interest of sterling 79.47 per sterling 5,000 nominal amount of the Notes, and interest of sterling 397.35 per sterling 25,000 nominal amount of the Notes, will be due against Coupon No 50

SBC Warburg
Reference Bank

FIRST NATIONAL BUILDING SOCIETY
Floating Rate Permanent Interest Bearing Shares

NOTICE is hereby given that the Register of Members of the Society holding Floating Rate Permanent Interest Bearing Shares will be closed on 3 March 1997, for one day only, for the purpose of preparing the Interest Payment payable on 18 March 1997.

BY ORDER OF THE BOARD
R BERGIN
SECRETARY

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INSURANCE - Cont.

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

Western Star Trucks C$	18⅞	0.6	–	–	–	–	–

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind	n	2201₂	___	0545c	ϕ	May Oct	2.9	–
Barlow	‡	881⅞xd	–7.3	0165c	3.3	Jan Jul	9.12	–
Gold Flds Prop R	†	138	–.8	085c	1.5	Feb Sep	2'96	–
MK Props		65	___	003.8c	–	Mar Sep	9'95	–
SASOL	♥	645	___	078c	–	Oct	9'93	–
SA Brews		£18½xd	–4.0	0200c	ϕ	Jul Feb	2.12	4113
Standard Bank		£25¼	–.8	0254c	3.1	Sep Mar	–	–
Tiger Oats		790	___	0132c	2.8	Jan Jul	10.6	–
Tongaat-Hulett		750¼	–1.8	0130c	ϕ	Jan Jun	20.5	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. e Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment; Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Prelude Ord & Wrts (Inv Tst), First Russian Wrts II (Otdn), Enterprise Venture Cap (InCo), Total Systems (SpSv), Calidore, Epicore Networks, John Lewis of H'ford, Mears (AIM). Deletions: Bailey (CH) (Eng), Fenchurch (Insce), JF Asia Select (InCo).

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT7351. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Comprehensive 10-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.

Company Focus (FT news) £8.45.

Focus Plus (FT and Investors Chronicle news) £10.95.

To order, call 0121 200 4678.

Reports published by ShareFinder Ltd.

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls charged at 45p per minute cheap rate and 50p per minute at all other times.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 0171 873 4378 for more information on FT Cityline.

For readers phoning from outside UK, please dial +44 in place of the first 0.

The share prices printed on these pages are also

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 45p/minute cheap rate and 50p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 45p/minute cheap rate and 50p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 45p/minute cheap rate and 50p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

NORTH AMERICA

CANADA

TORONTO (Feb 28 / Can $)

4 pm close

AFRICA

INDICES

US INDICES

Dow Jones	Feb 28	Feb 27	Feb 26	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Industrials	6877.74	6925.07	6983.18	7067.46 (18/2/97)	5032.94 (10/1/96)	7067.46 (18/2/97)	41.22 (8/7/32)
Home Bonds	103.02	103.17	103.21	106.09 (14/2/96)	100.99 (15/7/96)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2317.01	2318.86	2345.06	2376.19 (24/2/97)	1882.71 (18/1/96)	2376.19 (24/2/97)	13.23 (8/7/32)
Utilities	227.29	227.08	227.71	249.85 (22/1/97)	204.86 (30/7/96)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6978.18 (7028.59) Low 6820.78 (6885.44) (Theoretical) Day's high 6923.92 (6978.34) Low 6868.12 (6920.46) (Actual)

Standard and Poors	Feb 28	Feb 27	Feb 26	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Composite‡	790.82	795.07	805.68	816.29 (18/2/97)	598.48 (10/1/96)	816.29 (18/2/97)	4.40 (1/6/32)
Industrials¥	923.89	927.82	948.53	950.96 (18/2/97)	702.07 (15/1/96)	950.96 (18/2/97)	3.52 (30/6/32)
Financial	91.63	92.94	94.18	98.31 (18/2/97)	58.87 (10/1/96)	98.31 (18/2/97)	7.13 (4/8/74)
NYSE Comp.	415.51	417.89	422.14	427.07 (18/2/97)	321.41 (10/1/96)	427.07 (18/2/97)	4.64 (25/4/42)
Amex Comp.	594.24	595.17	597.31	617.81 (22/5/96)	524.20 (16/7/96)	617.81 (22/5/96)	524.20 (16/7/96)
NASDAQ Comp	1309.00	1312.66	1340.55	1388.06 (22/1/97)	988.57 (15/1/96)	1388.06 (22/1/97)	54.87 (3/10/74)

■ RATIOS

	Feb 21	Feb 14	Feb 7	Year ago
Dow Jones Ind. Div. Yield	1.94	1.92	1.95	2.12
	Feb 26	Feb 19	Feb 12	Year ago
S & P Ind. Div. yield	1.73	1.72	1.73	1.89
S & P Ind. P/E ratio	22.69	22.84	24.83	20.83

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Informix	10,102,200	20½	+4⅜
Seagate Tec	6,413,300	47¼	-3⅛
Micron Tech	6,193,400	37½	+⅛
K Mart	5,738,500	12¼	+⅛
Compaq	5,075,700	79¾	+⅜
Mercury Fin	5,015,300	3⅛	-⅛
Pepsico	4,451,800	32½	-½
Gen Cigar	4,212,300	23	+5
Motorola	4,037,700	55⅞	+¼
Westinghse	3,838,000	17¼	+½

■ TRADING ACTIVITY

● Volume (million)

	Feb 28	Feb 27	Feb 26
New York SE	512.042	468.446	562.123
Amex	22.727	19.999	20.112
NASDAQ	(u)	685.543	653.885
NYSE			
Issues Traded	3,306	3,303	3,333
Rises	1,026	896	755
Falls	1,455	1,603	1,800
Unchanged	825	804	778
New Highs	59	77	127
New Lows	32	37	31

■ S&P 500

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	792.80	790.40	-2.10	797.80	790.00	76,186	179,184
Jun	801.00	797.90	-2.20	805.00	797.20	6,907	22,082

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	18930.0	18570.0	-420.0	18950.0	18530.0	36,355	195,098
Jun	18950.0	18540.0	-440.0	18850.0	18500.0	16,342	102,572

Open interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Friday, February 28, 1997

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Hitachi	13.3m	1040	-30	Shiseido	5.2m	1410	-20
Nippon Credit Bk	7.7m	240		NKK Corp	4.7m	258	-3
Toshiba Corp	6.6m	680	-17	Fuji Heavy Inds	4.5m	575	+8
Honda Motor	5.7m	3730	-20	Toyota Motor	4.2m	3090	-90

INDEX FUTURES

GMT. ¶ Excluding bonds, ‡ Industrial, plus Utilities, Financial and Transportation.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $

FT Free Annual Reports Service
You can obtain the current annual reports of any companies on this page with a ♣ symbol. For North American companies you can either dial +1 804 320 8097, or fax your request to +1 804 220 8135 or order online at http://www.icbinc.com/cgi-bin/ft. For companies from ALL other countries dial 0181 770 0770 or fax your request to 0181 770 3822 (outside UK dial +44 181 770 0770 or fax your request to +44 181 770 3822).

4 pm close February 28

NEW YORK STOCK EXCHANGE PRICES

1996/97 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
32	24⅝	AAR x	0.48	1.9	21	1187	25½	d24¼	25½	+⅞
46⅛	33	AMP x	1.04	2.7	29	5583	38⅞	38⅜	38⅞	-⅛
87½	68	AMR			6	6816	79¼	78½	78⅝	-1¼
50½	33¼	ASA x	1.20	3.2	24	791	37½	36⅞	37⅞	
60⅛	38⅛	AbbtL	0.96	1.7	23	6746	57⅞	56¼	56¼	-1¼
17½	12¼	Abitibi Pr x	0.40	2.4	8	1739	16½	16¼	16½	+⅛
20¼	13½	ABM Ind	0.40	2.1	17	53	18⅞	18⅝	18¾	
22½	13⅞	Acptocan			10	288	21⅛	21	21⅛	
65¾	37¾	ACE Ltd	0.72	1.1	10	681	65	64½	65	+¼
10⅝	9⅛	ACM Gvt In	0.90	8.6	11	433	u10⅝	10½	10⅝	+⅛
7⅞	6⅝	ACM GvOpp	0.63	8.5		66	7½	7⅜	7⅜	-⅛
9⅞	8⅜	ACM Mun	0.90	9.4		276	9⅝	9⅝	9⅝	
13⅞	6⅛	Acme Elect				95	6⅞	6⅝	6⅞	+⅛
21⅝	15⅞	Acme Mtls			71	135	16¾	16½	16½	-¼
33¾	27¼	Acordia x	0.80	2.5	16	117	32	31⅝	32	+⅛
29¾	12	Acuson				510	27⅞	27⅛	27¼	-⅝
21⅛	17⅞	Adams Expr x	0.55	2.7	1	289	20⅞	20⅝	20¾	-⅛
36⅞	10¼	AdvMic				16168	36½	34⅞	35⅞	+½
15	8½	Advest Grp			9	142	14⅛	13⅝	13⅝	-½
26⅛	9⅛	Advo Inc			29	54	13	12⅞	12⅞	-¼
68¼	41⅛	Aegon	1.18	1.8	19	245	67⅛	66¾	66⅞	-1¼
6¾	3½	Aeroflex				78	4¼	4⅛	4⅛	-⅛
67⅝	40⅞	AES Corp				20	64¾	64¾	64¾	-⅝
89	57⅝	Aetna	0.80	1.0	60	4394	84⅛	82⅞	82⅞	-1
44	28¼	Aflac x	0.40	1.0	14	1165	41⅛	40⅝	40⅞	-¾
22	17⅛	AGL Res x	1.08	5.5	14	389	19⅝	19⅜	19½	+⅛
45¼	21⅛	Ahmanson x	0.88	2.1	45	20971	42⅛	40¼	41⅛	-⅞
77⅝	50⅞	AirPrC	1.10	1.5	19	2947	76⅛	74⅛	74⅛	-2
29	19½	Airborne Frt x	0.30	1.1	20	244	27¾	27¼	27⅞	-½
27⅛	15½	Airgas Inc			28	2824	19⅝	18⅞	19¼	+¼
18⅞	13¼	Airlease	1.80	10.5	11	60	17⅞	17	17⅛	
33⅝	23⅛	AirTch			75	9516	27⅞	26⅞	27¼	+¼

BE OUR GUEST.

Holiday Inn CROWNE PLAZA® MALTA

When you stay with us in MALTA stay in touch - with your complimentary copy of the

FT

FINANCIAL TIMES

NYSE PRICES

4 pm close February 28

Continued from previous page

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

♣ FT Free Annual Reports Service

You can obtain the current annual reports and if available quarterly reports of any companies on the US exchanges with a ♣ symbol. To order reports dial (International Access) 1-804-320-8097 or give the names of the companies whose reports you want and fax your request to (International Access) 1-804-320-8135. Reports will be sent the next working day, subject to availability. You can also order online at http://www.icbinc.com/cgi-bin/ft.

NASDAQ NATIONAL MARKET

4 pm close February 28

- K -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
K Swiss	0.08	100	18	11	10⅞	11	+¼
Kaman Cp	0.44	12	142	13⅞	13½	13¾	
Kelly Sv x	0.84	14	66	29	27½	27½	
Kimball	1.04	16	108	39½	39	39½	+⅛
KLA Instr			19268	41⅞	38⅞	41½	+¾
Koll A			427	1/16	1/32	1/32	
Komag ♣		14	7752	30⅝	29	30	-⅛
Kulicke S			2992	27	25½	26½	+⅛

- L -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Laboné x	0.72	85	29	19¼	18¾	18⅞	-⅛
Ladd Furn			60	15 5/16	15	15	-⅛
Lam Rech			12171	35 38¾	36⅛	38⅛	+13/16
Lancaster	0.72	16	352	46½	45¾	45¾	-⅞
Lance ♣	0.96	22	213	19	18½	18½	-¼
Lasoptics			10	7 5/16	7¼	7 5/16	-5/16

- R -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Rainbow		13	109	17 13/16	17½	17¾	-⅜
Rallys			3704	3 1/16	2 15/16	2⅞	-⅛
Raymond	0.10	13	580	26½	26	26	-3/16
RCSB Fin	0.60	12	1066	34	33¼	33⅝	-¼
Read-Rite			34196	32⅞	29⅝	30 11/16	+1 5/16
Recoton		14	201	15⅝	15¼	15¼	
RegFinCp			2092	59⅝	58⅞	58⅞	-¾
Repligen			116	1¼	1 7/32	1¼	+1/32
Repub Ind			17216	36⅝	35⅜	35½	-⅞
ResrchMed		23	89	23⅜	23⅛	23⅜	+⅛

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx ♣		26	28025	45¾	42	45⅛	+2¼
Xircom		35	7178	21	19⅝	19⅞	-1⅛
Xoma Corp			4578	7⅛	6⅝	6⅞	-3/16
Yellow			334	16	15⅝	15⅝	-⅜
York Rsch		18	548	9½	9⅛	9¼	-¼
ZionsUtah	1.76	18	254	124½	122¾	124½	

AMEX PRICES

4 pm close February 28

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$8.125		13500	8.25	8	Innogenetics	US$11.5		49800	11.625	10.5
Artwork Systems	US$10.875		28236	11.375	10.25	Mercer Internatl.	US$10.25		1000	11.375	10.25
Dr Solomon's ADS	US$24.875		1000	25	22.75	PixTech	US$5.5		25000	6.25	4.75
Esprit Telecom ADS	US$12.25		40035	12.5	12						

Prices for 28/2/97.

Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 515 3095).

FT GUIDE TO THE WEEK

MONDAY 3

Russia hosts EU talks

Boris Yeltsin, the Russian president, hosts an EU-Russia summit in Moscow. Bilateral trade, EU plans to expand membership to central Europe, organised crime, and Russia's need to prepare for membership of the World Trade Organisation will be the main discussion topics. Wim Kok, the Dutch prime minister, and Jacques Santer, the president of the European Commission, will represent the EU at the summit, which was postponed last month because of Mr Yeltsin's recuperation from heart surgery.

Arafat in Washington

Yasser Arafat, the president of the Palestinian Authority, meets Bill Clinton, the US president, and Madeleine Albright, the US secretary of state, in Washington. Mr Arafat's visit follows Israel's decision to build a Jewish settlement closing the last corridor through which the Palestinian-claimed east of Jerusalem could be linked to the West Bank. The decision has provoked warnings that it could derail the peace process.

Greece debates Cyprus

Greek Cypriot and Greek politicians hold a brainstorming session on Cyprus's bid to join the EU and on policy towards Turkey. Both are under EU pressure to include the divided island's Turkish Cypriot community in accession negotiations. Greece and Turkey have already exchanged threats to veto EU and Nato expansion, while tension is high over a Greek Cypriot plan to import missiles to counter the Turkish military presence.

Public holidays

Bulgaria, Georgia, Malawi, Morocco.

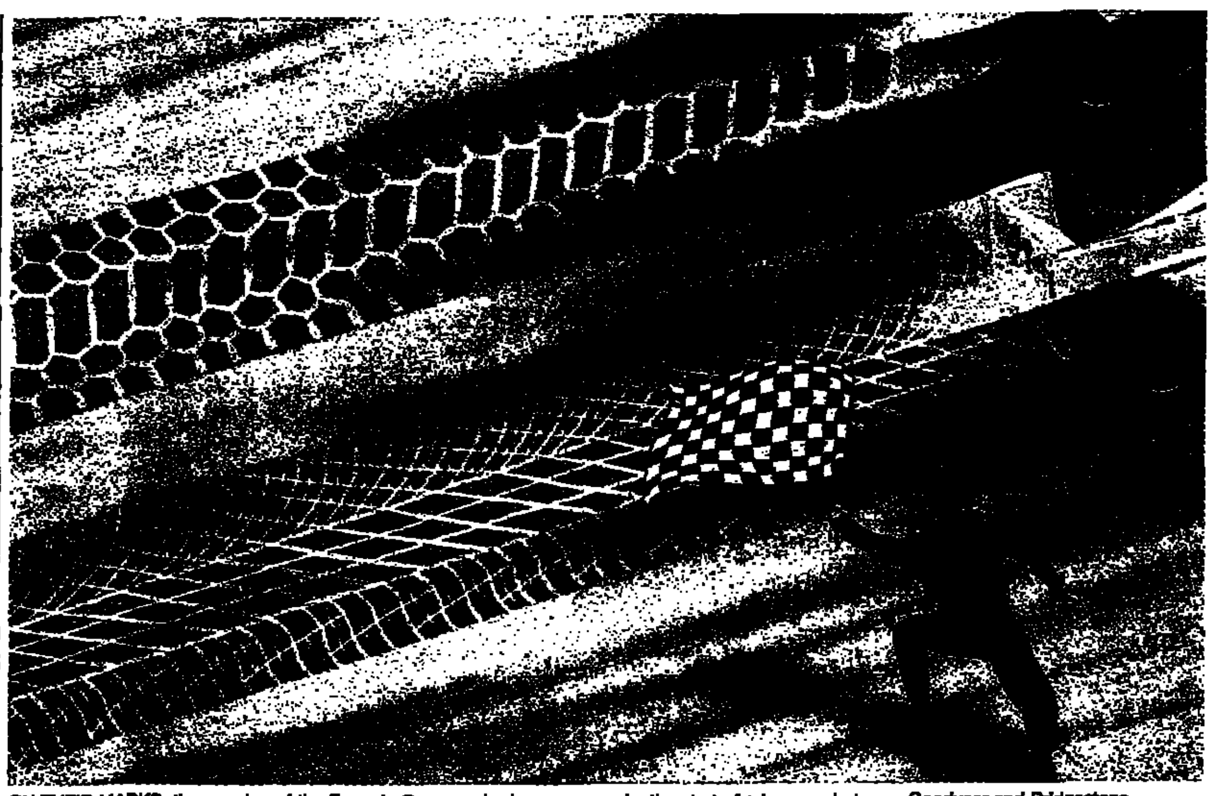
TUESDAY 4

UN issues drugs report

Governments should focus on catching top drug traffickers instead of allowing law enforcement systems to be clogged up by the petty offenders, according to a UN study. The Vienna-based International Narcotics Control Board, in its annual report, says the "worldwide drug abuse epidemic" has overwhelmed many law enforcement systems while drug-related corruption and intimidation threatens the integrity of politicians and public servants. It also wants drug trafficking to be subject to the UN's proposed international criminal court.

Centre-right Euro summit

Helmut Kohl, the German chancellor, joins fellow centre-right prime ministers from Belgium, Ireland, Italy, Luxembourg and Spain at a summit of the European People's Party (EPP) in Brussels. The leaders of the Christian Democrat EPP, which after the Socialist group is the second biggest of the European Parliament's eight political divisions, will discuss how to wrap up the Maastricht treaty review conference by mid-June and how to plan enlargement of the EU to central and eastern Europe.



ON THEIR MARKS: the opening of the Formula One grand prix season marks the start of a tyre war between Goodyear and Bridgestone

Asian grouping convenes

The Six Markets Group or Asian G-6 – Australia, China, Hong Kong, Japan, Singapore and the US – convenes for the first time in Tokyo to discuss stability in financial markets and exchange rates. Hiroshi Mitsuzuka, the Japanese finance minister, says that – if the participants meet regularly – the forum could be upgraded to "an Asian version of the Group of Seven" leading industrial countries, with meetings of the finance ministers and central bank governors. Initially, the grouping will confine itself to macro-economic strategic co-ordination.

FT Survey

Zambia.

Public holiday

Guam.

WEDNESDAY 5

Peace push for Korea

North Korea is to attend a New York briefing with the US and South Korea on proposed four-party peace talks for the Korean peninsula. It will be the first time the two Koreas have had official contacts in nearly three years. Washington and Seoul will try to persuade North Korea to join the peace talks, along with China. The US has suggested it would provide food aid and ease trade sanctions if Pyongyang agreed to participate in the talks, which are meant to bring a formal end to the 1950-1953 Korean war.

Lee seeks greater powers

Taiwan's president, Lee Teng-hui, will meet with members of the national assembly to discuss constitutional reforms. Among the more controversial is the shrinking of the operations of the provincial government and the granting to the president of powers to dismiss the national legislature.

FT Survey

FT Review of Information Technology.

Public holidays

Tahiti, Vanuatu.

THURSDAY 6

French civil servants strike

Civil servants in France are set for a one-day strike in protest at a pay offer. Unions have demanded 4.4 per cent, but the civil service ministry says it expects the 1997 public sector pay bill to increase by just under 2.2 per cent. The government, which has refused unions' demands for "compensation" for last year's wage freeze, is determined to hold the line in order to contain the overall public deficit to ensure France qualifies for European monetary union. The move comes at the end of a winter of strikes, although the chaos caused by those of late 1995 has largely been avoided.

WTO reviews China entry

Negotiations on China's admission to the World Trade Organisation are reviewed in Geneva by the WTO's working party charged with drafting the terms of entry. China has signalled that it may be preparing some important concessions in order to speed the decade-old talks. WTO members say they may give China time to phase in some fair-trade rules but want more immediate market access for their imports. At the same time, a marked thaw in US-China relations has raised hopes for completion of the negotiations later this year.

Speech hurdle for Yeltsin

Boris Yeltsin, the Russian president, delivers the annual state of the union address to parliament. His first live speech since his inauguration last August, it will be viewed as an important test of whether he is healthy enough to govern following open heart surgery. It also comes amid mounting speculation of a cabinet reshuffle. The speech, say some media reports, will deal with the centralisation of budget accounts.

Indian Ocean Rim links up

Ministers from 14 countries bordering the Indian Ocean meet in Mauritius for the inaugural session of the Indian Ocean Rim Association for Regional Co-operation. The forum aspires to build multilateral ties for collective bargaining with the developed world. However, delegates must first decide whether to limit membership to developing countries. France is already seeking membership. Pakistan could be excluded because of its dispute with India, which co-founded the grouping. Finding common ground could be hard.

Saleroom

One of the most specialist collections of coins ever likely to reach the market, the John J Slocum collection of coins of the Crusades, comes under the hammer at Sotheby's in London (to Mar 7). Slocum, a US diplomat in the Middle East, acquired many rarities – especially coins minted by the grand masters of the Order of St John on Rhodes, which carry estimates up to £5,000. Most of the coins are expected to sell for under £300.

Cricket

First test, West Indies v India, Kingston, Jamaica (to Mar 10).

FT Survey

FT Review of the Automotive Industry.

Public holiday

Ghana.

FRIDAY 7

Gloom for Mexican banks

Mexico's national bankers' association holds its annual convention in the Caribbean resort of Cancún – as far away from Mexico's militant debtor organisations as it can get. Since last year's gloomy gathering, several ailing Mexican banks have been taken over by foreigners. This year, more gloom is anticipated as banks adjust to the much tougher accounting standards dictated by Mexican bank regulators.

Cricket

First test, New Zealand v Sri Lanka, Hamilton, New Zealand (to Mar 11).

FT Survey

Credit Management.

Public holidays

Fiji, Nepal.

SATURDAY 8

Labour conference closes

Gordon Brown, the UK shadow chancellor, closes the Scottish Labour party conference in Inverness. The conference, which starts on Friday, will be the last set-piece event of the British opposition party before the election and is expected to be carefully stage-managed. Anxious that the tensions within the Scottish party do not steal the headlines, the leadership has ordered that no resolutions be debated. Tony Blair, the party leader, and Robin Cook, the shadow foreign secretary, will also address the delegates.

FT Survey

FT Guide to Year End Tax Planning (UK only).

Public holidays

Angola, Azerbaijan Republic, Belarus, Burkina Faso, Guinea-Bissau, Kazakhstan, Kyrgyzstan, Moldova, Nepal, Russia, Syria, Turkmenistan, Uganda, Ukraine.

SUNDAY 9

Chinese warships visit US

Chinese naval destroyers arrive at Pearl Harbour, Hawaii, for the opening leg of a US visit during which they will become the first Chinese warships to visit the US mainland. A sign of recently improved Sino-US ties, their voyage was announced just one day after the death of Chinese paramount leader Deng Xiaoping. The destroyers Harbin and Zhuhai will reach San Diego on March 21. They are expected to proceed to Mexico, Peru and Chile.

Motor racing

The Formula One grand prix motor racing carousel starts again, opening in Melbourne with more team debuts and reshuffled driver line-ups than usual – plus the first Formula One Goodyear/Bridgestone tyre war. Former world champion Jackie Stewart's all-new Ford-backed team will attract much interest, as will Arrows, which is under the new ownership of fellow Scot Tom Walkinshaw and boasts the reigning world champion, Damon Hill, sacked by Williams-Renault. The favourites are Canadian Jacques Villeneuve (Williams-Renault) at 5-6 on, and Michael Schumacher (Ferrari) at 7-2.

Sumo wrestling

The 15-day spring grand sumo tournament opens in Osaka, Japan. Wakanohana will be hoping to join his brother, Takanohana, and the Hawaiian, Akebono, at the pinnacle of the sport's hierarchy. They would be the first brothers ranked *yokozuna* simultaneously. Meanwhile, Daver Batbayar, a Mongolian and the first non-Hawaiian to ascend to the fourth highest rank of *komusubi*, is fighting under the name Kyokushuzan. Raised with little concept of money, let alone technology, when he was first in Japan he believed drink vending machines responded to bows.

Compiled by Simon Strong.
Fax: (+44) (0)171 873 3194

ECONOMIC DIARY

Other economic news

Monday: The US NAPM index will be watched for signs of accelerating economic activity and inflationary pressures. US consumer spending is forecast to have strengthened in January. The UK's purchasing managers' index will show whether the strong pound continued to hit industry. UK M0 money supply and consumer credit figures will be a measure of high street activity.

Tuesday: Bad weather in the US may have held back new home sales in February. German data due this week may show that manufacturing orders and output rose in January, helped by the D-Mark's decline.

Wednesday: Economists expect that UK interest rates will be left unchanged at the latest monetary meeting between the Treasury and the Bank of England.

Thursday: The Confederation of British Industry's distributive trades survey will give an indication of the strength of UK consumer demand.

Friday: The US employment report for February is expected to show a rebound in earnings and hours worked.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Feb automobile sales**		14.9%	March 6	Germany	Feb unemployment - west†	5k	78k
March 3	Japan	Feb forex reserves*		-0.3%		Germay	Feb unemployment - east†	6k	61k
	UK	Feb M0*	0.5%	0.7%		Germany	Dec employment - west†		-40k
	UK	Feb M0**	7.0%	7.4%		Germany	Feb vacancies - west†		-2k
	UK	Jan consumer credit	£950m	£1.022bn		Germany	Feb short time - west not†		56k
	UK	Feb official reserves		$1m		US	Initial claims March 1	320k	316k
	UK	Feb Chart Inst of Purchasing Managers		54%		US	State benefits Feb 22		2,412k
	US	Jan personal income	0.1%	0.8%		US	Jan factory orders	2%	-1.5%
	US	Jan personal consumer expenditure	0.5%	0.5%		US	Jan factory inventories		-0.3%
	US	Feb Nat Ass of Purchasing Managers	53%	52%	Fri	US	Feb non-farm payrolls	223k	271k
	US	Jan construction spending	0.2%	-0.7%	March 7	US	Feb manufacturing payrolls	10k	18k
	US	Feb domestic automobile sales	7m	7.4m		US	Feb hourly earnings	0.3%	0.1%
	US	Feb domestic light truck sales	6.2m	6.1m		US	Feb average working week		34.1
Tues	US	Jan leading indicators	0.2%	0.1%		US	Feb unemployment rate	5.3%	5.4%
March 4	US	Jan new home sales	760k	783k		US	Jan consumer credit	$5.5bn	$4.9bn
	Japan	Feb trade balance - 1st 20 days not†		Y131bn	During the week...				
Wed	Germay	Q4 gross domestic product pan-Ger***	-0.2%	0.8%		Germany	Dec trade balance	DM9.5bn	DM9.8bn
March 5	Germay	Q4 gross domestic product pan-Ger**	1.6%	1.9%		Germany	Dec current account	-DM1bn	DM0.2bn
	Germany	Q4 gross domestic product - west***	-0.2%	0.7%		Germany	Jan industrial production pan-Germany*	-0.6%	0.8%R
	Germay	Q4 gross domestic product - west**	1.5%	1.7%		Germany	Jan manufacturing output pan-Ger*	0.8%	-0.8%R
	US	Jan home completions		1.48m		Germany	Jan industrial production west-Ger*		0.3%R
	Japan	Jan current account (IMF)	-Y20bn	Y33bn		Germany	Jan industrial production east-Ger*		2.8%R
	Japan	Jan trade balance (IMF) not†		Y271bn		Germany	Jan manufacturing orders pan-Ger*	1.5%	-1.8%R
	Japan	Jan foreign bond investment		Y1,3500bn		Germany	Jan net foreign securities purchases		-9.1bn
Thurs	Germany	Feb unemployment pan-Germany†	11k	160k					

*month on month, **year on year ***qtr on qtr †seasonally adjusted   Statistics, courtesy MMS International

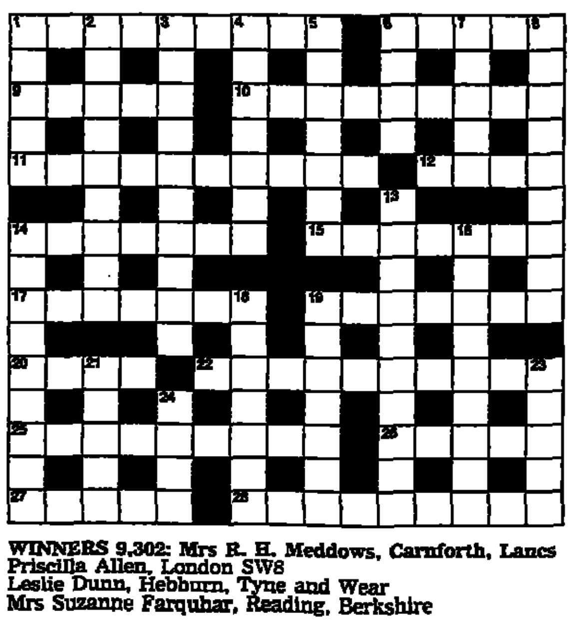
MONDAY PRIZE CROSSWORD
No.9,314 Set by GRIFFIN

ACROSS

1 Lily wants everything and is a contrary girl at heart (9)
6 Heavenly supporter needs a last fling (5)
9 Giving a pass away you said goodbye (5)
10 Fancy nine Popes being from Japan! (9)
11 Reviled drunk dined out of jar (10)
12 Caught fellow embracing male cook (4)
14 Qualify for quarters before championship (7)
15 Cooks create the ultimate roll covered in syrup (7)
17 Short of vitality and experience (7)
19 Rushed round type of boat the navy rejected (7)
20 Gone by last August moisture in plant returns (4)
22 Being victorious on arrival having finished first (10)
25 Conductor is chosen and about to take suit back (9)
26 Bowl over a type of corn, say (5)
27 It's not a North Belgian port, silly man! (5)
28 Singers sent gross arrangements (9)

DOWN

1 Prize fighting will be, in time (5)
2 Turned away from lounge reassembled and ate outside (9)
3 Said "why use strong liquid on children?" (10)
4 Family row, years after (7)
5 A fool that is not without love is shrewd (7)
6 At work above (4)
7 Sucker taking shelter with companion (5)
8 City girl felt tip must be given to competitors (9)
13 Damaged Julia's OBE with a wine (10)
14 Supplies witty saying to chaps in SF film (9)
16 Frank had meal with examinee (9)
18 Clear five promissory notes after outside broadcast (7)
19 Wave forward a theatre worker (7)
21 Stewed weeds eaten with dinners (5)
23 Suppose those you invited last night dropped out? (5)
24 Discontinue making up pockets (4)



Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday March 13, marked Monday Crossword 9,314 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 17. Please allow 28 days for delivery of prizes.

Name..........

Address..........

WINNERS 9,302: Mrs R. H. Meddows, Carnforth, Lancs
Priscilla Allen, London SW8
Leslie Dunn, Hebburn, Tyne and Wear
Mrs Suzanne Farquhar, Reading, Berkshire

Solution 9,302

TEENAGERS LINER
U Q R A A I O I
THUMB RENOVATED
O I I W C E C E
REPATRIATE CHAR
M R G U S L
SEESAWS MACABRE
C N T R E S
OUTCOME TOUCANS
U R L R T U
NILE FATALISTIC
D A D T N N I A
RECTORIES ELFIN
E K N O I E U D
LISLE NATURALLY

Commentary · Winston Fletcher

Why researchers are so jittery

With a general election looming, Britain's market research wizards are on tenterhooks. The latest issue of the UK's Market Research Society magazine is titled: "1997: Year of decision for MR", and the lead article starts by asking whether 1997 will be a year of "further embarrassment". The second article is titled: "Laying the ghost of the nightmare of '92", a reference to the way UK opinion polls were all at sea with their predictions of the 1992 UK election result.

Having celebrated their society's 50th birthday last year with much braggadocio, researchers now have a hangover. This being election year, the opinion polls are on trial again, and if researchers get things wrong – which hardly seems possible, but then it did not seem possible last time – their credibility will be in smithereens.

Inevitably, the entire market research business will be seen as guilty by association, and market research is now pretty big business. With £7bn in turnover and steady, compound growth of 8-10 per cent a year, the UK research business has done extremely well of late. Moreover, the Association of Market Survey Organisations (Amso) forecasts growth of 15-20 per cent this year.

Research is a nice little export earner, too. As with other marketing activities, Britain is a world leader. According to Amso, about 20 per cent of UK market research turnover comes from international surveys, and international work is growing faster than domestic.

Today there are few manufacturing companies, media houses, government departments, public bodies, academic institutions or even retailers in Britain which do not integrate research into their decision-making processes. For many years, retailers were market research Cinderellas. They believed they could learn from their store traffic everything they wanted to know. As a result, they felt they did not need to ask any questions. But retailers now account for some 5 per cent of total research expenditure, and their share is growing steadily.

However, not everything is rosy. Though other market researchers strive to distance themselves from the political pollsters, they know they share their problems, and many of those problems are fundamental. On one hand, some members of the public manifestly enjoy taking part in research surveys and focus groups. The paid interviewers know who they are, and return to them again and again. This leads to bogus results.

On the other hand, more people are becoming refuseniks. In Britain the industry now conducts well over 15m interviews per year, and 100m questionnaires are mailed out by database companies. Although there are no published figures, most experienced researchers will confirm that refusal rates are rising steadily.

Even in flagship studies like the National Readership Survey, response rates are now just over 60 per cent after eight or more calls on respondents. (When the survey started in 1954 they reached 85 per cent after six calls). So 40 per cent of the NRS universe is nowadays uncanvassed. Political polls suffer similarly high non-response rates, which was one of the reasons for the 1992 debacle.

More worrying, a welter of evidence shows that a growing proportion of the public is now playing games with market researchers. They understand the processes (which are hardly rocket science) and consciously manipulate their responses. Like voters in by-elections, they deliberately send messages to companies and political parties, using the researchers as conduits. It takes only a small percentage of such respondents to invalidate results.

None too soon, the research industry has started to investigate these problems. Several of the key papers at last month's Amso annual conference addressed the increasingly uncertain relationship between market researchers and their raw material – the public.

It is by no means clear what, if anything, can be done, and that is why so much hangs on the election pollsters' accuracy this time round. Polls capture the headlines. Polls have also captured politicians. Nobody pays more attention to surveys than politicians. Contrary to conventional wisdom, market research is a far more potent influence in modern politics than advertising. Politicians read, mark, learn and inwardly digest the voters' views on everything from abortion to traffic crossings. And the pollsters revel in their influence.

Behind The Oval Office, the new sell-and-tell pot-boiler by President Bill Clinton's ex-chief electoral strategist, Dick Morris, shows Clinton messily awash with market research findings in the run-up to last year's election. Indeed, Clinton often felt himself drowning in them.

The pollsters tried to control his every waking moment. They told him to become a father figure with a powerful red tie and dictated how he should spend his holidays. "Can I golf?" the president asked the pollsters, his tone dripping sarcasm. "Maybe if I wear a baseball cap?" He was told: "No, sir, go rafting".

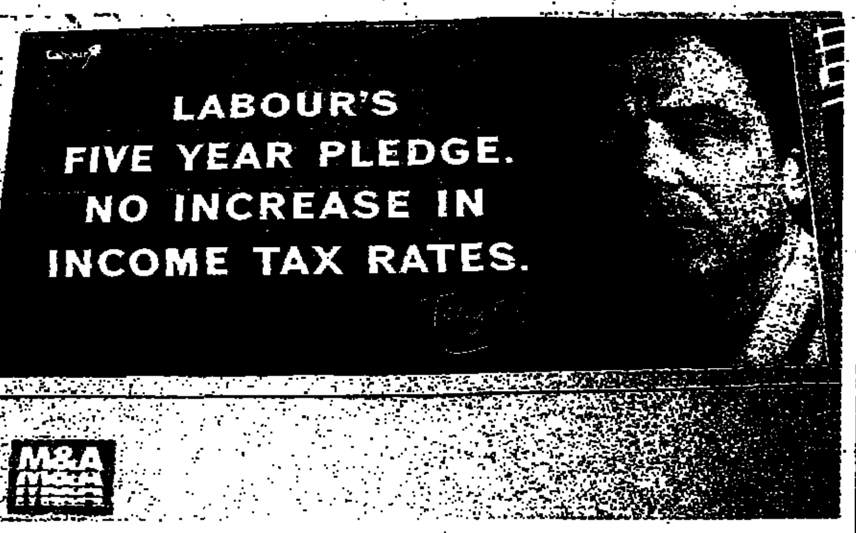
In compensation, market research has given political leaders, both in western and ex-communist democracies, new power over their parties. In Britain, former prime minister Margaret Thatcher was able to march on with confidence during the Falklands war because she tracked public opinion throughout. Neil Kinnock, the former Labour leader, was able to defeat Militant extremists because he knew that the vast majority of the electorate, and the vast majority of Labour voters, supported him.

The ability of the present Labour leader, Tony Blair, to ride roughshod over Labour's historic articles of faith has, again, been built on firmly researched foundations. When zealous and partisan supporters claim "the party'll never buy that", the leader, research data in hip-pocket, can nowadays ignore them with insouciance.

All of this emphasises the present symbiosis between market research and politics. It will last as long as the politicians continue to have faith in the researchers' wizardry. The politicians influence a great deal of business, both directly, via government departments, and indirectly, via publicity and the media.

So the researchers wait – and worry – for 1992 was not their only cock-up. They also bombed in 1970. And in the 13 elections between 1945 and 1987, some 40 per cent of pollsters' forecasts were inaccurate by more than plus or minus 2 per cent – a small margin, but usually sufficient to swing the result, which is all that matters.

Most of the time the researchers' findings cannot be verified. They cannot be proved right or wrong. Except at elections. That is why market researchers are now so jumpy. Their outlook is far from bleak, but it is distinctly unsettled.



Market research is a far more potent influence in modern politics than advertising

Ad in the News:

Toyota Picnic

Emperor's bare wheels

Pity the poor directors at Toyota. The UK market for people carriers is booming, and after painful months on the drawing board an acceptable design compromise has been reached: the management has sanctioned a renewed commitment to advertising budgets and then, with much fanfare, the new name is unveiled – the Picnic.

Now, we all know that design companies and other such consultancies are paid fortunes to come up with jazzy new corporate identities or brilliant new product names.

Many readers will have sat around a boardroom table nodding at designers as they post-rationalised the strategy behind a new squiggle or name. And readers may have looked sheepishly at colleagues, praying that they would be the first to say aloud what everyone was thinking: "The emperor has no clothes!"

Sadly, no-one at Toyota had the nerve, and Saatchi and Saatchi was asked to create a launch advertising campaign for the Picnic, so as to take on rival brands such as Ford's Galaxy and Renault's Espace.

Two funny commercials feature a young only-child who hears with considerable trepidation that her parents' new Toyota Picnic is spacious enough to hold three more children.

Horrified, the child sets out to thwart her parents' attempts to conceive. In the first ad she sets off the Picnic's alarm again and again. Each time her parents leap out of bed.

In the second ad she ruins a romantic meal by sending a mouse across the dining room floor and, later, turns up like a bad dream in their bedroom doorway, claiming "teddy's scared". The last shot sees her snuggled up between her frustrated mother and father.

The ads mark a big leap forward in nerve for Toyota, a very cautious advertiser, which has been putting some £20m a year behind its "The car in front" strategy – money largely wasted on anodyne and anonymous ads.

The latest ads are refreshing and far from anonymous. But there are things about them that do not seem to add up.

For example, suburbanites obsessed with keeping up with the Joneses are the target market. Yet they would hardly invite the neighbours to take a spin in their spanking new Picnic.

And at between £15,000 and £20,000, the Picnic is too expensive to have a joke name. Presumably Ford and Renault are enjoying a chuckle at Toyota's expense.

Stefano Hatfield

The author is editor of Campaign

Toyota's midnight Picnic for three

A better class of salesfolk

The task might almost be a lesson from one of the courses it plans to run: sell the idea of setting up an Institute for Professional Sales in the UK.

It is no easy assignment. The Chartered Institute of Marketing already exists, and the new organisation, which becomes open to members today, will be little more than an offshoot of the CIM at first.

The 12 new courses on offer will be double-branded as CIM/IPS, and will be provided by the CIM structure and lecturers.

This suggests that another organisation is not needed. But John Mayfield, chief executive of the new institute, says there is demand among the 1m-plus assorted people – from sales directors to people in telephone sales – who are his target market, and among the organisations for which they work.

"A lot of people in sales are put off from joining the CIM because that is specifically about marketing," he says.

So far, nine companies have committed themselves to distributing information packs to their sales staff. They range from IBM, with 1,100 UK sales people, to Lego UK, which has a sales force of about 30.

The advantages for such companies, Mayfield says, is that the organisation offers a clear training path from basic to advanced sales techniques.

Besides encouraging adoption of best practice and providing education, the IPS is also intended to increase recognition of sales as a profession.

"Sales have historically enjoyed a poor reputation," says Mayfield. "There is a crying need for sales personnel to be able to show their competency to customers."

There is already a choice of professional qualifications, including those in selling, professional selling, and sales management offered by the CIM, and sales personnel can surely demonstrate competence in the way they behave towards customers. Providing a new set of letters to go after someone's name is not the obvious way for sales professionals to "show their competency".

Alison Smith

MARKETING / ADVERTISING / MEDIA

Eisner's princely ways cut no ice with shareholders

Christopher Parkes feels a chill wind blowing across Anaheim Pond at Disney's AGM

The music, choreography and showmanship on display at Walt Disney's annual meeting last week amply demonstrated the company's command of stagecraft. But when it was time for audience participation, the masters of illusion revealed a less than adequate grasp of the arts of interactivity and crowd control.

After more than four hours, as the show dragged into its closing minutes, Michael Eisner, Disney's notoriously snappy group chairman, was still trapped stage centre.

Although most of the 10,000-plus audience had grabbed their free passes and buzzed off to Disneyland, the willing suspension of disbelief had long since evaporated among the crowd's remnants. Why, Eisner was asked from the floor, was it so cold in here. "Because you're sitting on the ice," he snapped back.

Arranging seating on a thin carpet covering the rink of Anaheim Pond, home of Disney's Mighty Ducks hockey team, may have been a cunning ploy to keep the meeting brief. But while the passes to the neighbouring theme park had worked their magic on many, the freeze-out tactic was a flop among the die-hards.

In no uncertain terms, Eisner told his questioner he wanted "out of here". He had accepted the blame for the ill-starred, short-lived, $100m-plus tenure as group president of his pal, Michael Ovitz. Shareholder concerns about Disney's lavish way with executive pay, and a proposal to reprimand the board by blocking the re-election of five members, had been debated and voted down. Official business was completed; there was nothing more to say.

Within minutes Eisner and his executive princes were on the road back to their bunker in Burbank. The performance had started well enough with clips and a rollicking song from this year's animated feature. "Who put the glad in gladiator . . . Hercules," boomed out across the arena. Five "muses" swirled Supremes-style, singing "A star is born".

The stage and the mood were thus set for Mickey Mouse to introduce today's incarnation of Hercules, worshipped by Italian ancients as the god of merchants and traders: "My pal, Michael Eisner."

A two-hour exposition of corporate greatness and fulsome tributes to the chairman's fellow "cast members" were to come before the audience could launch into its own, less tuneful chorus.

Eisner presented Sid Bass, hailed him as the white knight who saved lame duck Disney from corporate raiders in 1984, and bade him stand amid the throng. A Disney camera (the only one allowed into the meeting) projected his beaming face on the screen. Warren Buffett, who backed Disney's takeover of Capital Cities/ABC and "a brand-name on the world economic landscape", stood up to be recognised and screened.

Sandy Litvak calmed things down by summoning a colleague, armed with a rambling prepared statement based on the claim that Michael Eisner's $750,000 annual basic pay was the lowest in entertainment

One by one, starting with the directors up for re-election, the 11 group board members were called to the camera, praised – and took their bows to steadily thinning applause.

The mood lifted as division heads reeled off their past triumphs and trailers of triumphs to come. Actor Robin Williams mugged his way through a clip from *Flubber*, due out late this year. An animated Tarzan, scored by Phil Collins, was glimpsed "surfing" the rainforest undergrowth. George of the Jungle crumpled his crotch in an ill-advised bid to slide down a tree.

Intermezzo over, Eisner was back, bending a knee to his critics. "In our quest for the best, we make it clear we expect risk-taking, which may sometimes lead to failure. I'd like to think this mistake thing doesn't apply to me. And at home I make that clear to my children. But in the office, it happens, as in the Michael Ovitz situation. Not good. A mistake. Won't happen again. But my intentions and those of our board were appropriate and, we thought, wise."

Then Hercules surrendered the stage and the stable of King Augeas to Sandy Litvak, chief of corporate operations. No more Mr Nice Guy. Litvak, earlier presented as the "calm voice" and screened as a smiley, grizzled grandfather, swivelled menacingly at the hips as he launched into the official business and instructed questioners, champing at the bit in the lunch-free arena, to keep it short.

He earned an early round of boos when he tried to smother one cross questioner who had a series of questions on Eisner's "$400m" compensation package for 1997. A phalanx of eight security men gathered to hover close by. The grumblings grew.

Litvak calmed things down by summoning a colleague, armed with a rambling prepared statement based on the claim that Eisner's $750,000 annual basic pay was the lowest in entertainment.

That got things moving around the arena exits, and the crowd was now thinning rapidly. But there were still enough to give a rousing cheer to the man who suggested lopping the Ovitz severance package off Eisner's pay. "To recognise failure is one thing, but to reward it is a mistake," came another voice.

The small shareholders and company employees in the audience were having their day, catcalling at Litvak's stonewalling. More cheers followed for a man – "You think you can railroad us with your rhetoric" – angered by events.

Disney was not a one-man company. An enormous number of department heads were disaffected and looking for other jobs: "They have lost the spirit," he charged. Disney's attitude to constructive dissent was: "This is a great place to work and to hell with you."

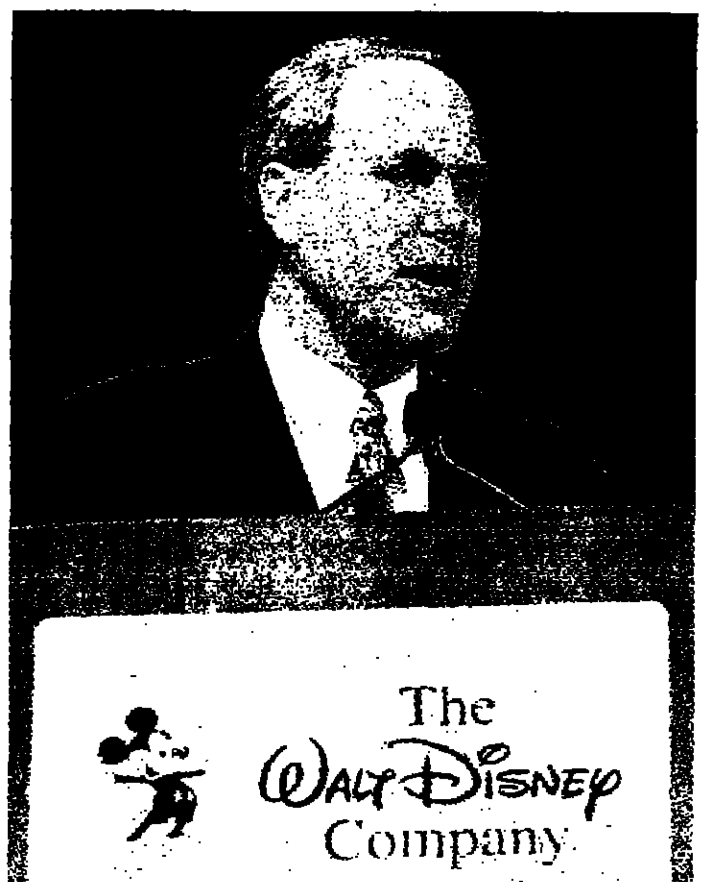
Litvak was quickly in trouble again over his cavalier way with selecting and brushing off questioners. Faced with a charge of arrogant disregard of questioners' concerns, and bombarded with the loudest jeers of the day, he offered the meeting's second apology.

Eisner returned to draw the remaining flak, promise brighter lights in the Pirates of the Caribbean ride, and crack his ice joke. But the atmosphere was irreparably chilled. In contrast to Disney's experiences in the consumer marketplace, many in the crowd left cold, hungry and dissatisfied.

The chairman ultimately carried the day. But while he persuaded the audience to "move on" from the Ovitz farrago, he appeared simultaneously to sharpen the scrutiny of his own pay arrangements.

In an environment where boards routinely garner overwhelming support from shareholders, the 8 per cent of the votes cast against his package and the 13 per cent withheld from the directors up for re-election constituted an unusually strong rebuke.

As the wider debate over top-level pay in the US heats up, Eisner and his cast members were left with more than enough incentive to earn the performance-related portion of their packages, polish up their AGM act – and find a warmer venue for next year's meeting.



Eisner: "I'd like to think this mistake thing doesn't apply to me"

Coke tries a curvy can

One of the few claims to fame of Terre Haut, Indiana, is that in 1916 it was the birthplace of Coca-Cola's contour bottle. Today, Coca-Cola plans to put Terre Haut back on the map as the birthplace of another revolution in packaging: the first-ever contour can.

Contour shift: the "hobbleskirt" design now graces the can

Coca-Cola has chosen Terre Haut as one of five US test markets for a curvaceous can that it hopes will boost sales by mimicking the popular shape of its famous "hobbleskirt" bottle, one of the world's best-recognised icons.

Cans for food and other products have come in various shapes and sizes over the years, but Coca-Cola claims this is the first time a soft drink has been marketed in anything other than a conventional straight-sided cylinder.

"We view cans as one of the last bastions of non-differentiation when it comes to the marketing of non-alcoholic beverages," says Frank Bifulco, vice-president for marketing at Coca-Cola USA. "We felt we needed to probe that opportunity as a way for us to connect more strongly with the consumer and, at the end of the day, to sell more product."

Oddly, for all its longevity, the contour bottle came about by accident. It was invented by a Coca-Cola bottle manufacturer in Terre Haut who was searching for a design that would distinguish Coca-Cola from its imitators. The bottler looked up "coca" in the *Encyclopaedia Britannica* and mistakenly took his cue from the fluted contours of the totally unrelated cocoa bean pod.

The bottle caught on because of its pleasing feel and shape, which matched the contours of the human grasp. The bosomy lines of the original design caused it to be known as the Mae West bottle for many years, but a slimmed-down version was dubbed the hobbleskirt after a women's fashion of the time.

Today, the contour trademark ranks almost as high in recognition as the Coca-Cola logo. So, in the last few years, Coca-Cola has been looking for ways of exploiting its value by adopting it for other containers. In 1993 it scored a big success by starting to sell Coke in a contoured, 20oz plastic bottle, a move that has subsequently delivered strong sales growth in the otherwise mature US market and elsewhere.

But about 50 per cent of all Coke sold in the US is canned, and executives have long pondered how to apply the contour shape to this market segment. The main obstacle was technological: how to overcome the problems of filling, shipping and stacking an irregularly shaped, and therefore structurally weaker, container.

By 1994, Coca-Cola had developed an experimental can made of steel, and showed it to consumers in Germany. After getting an enthusiastic response, it moved ahead and developed today's aluminium version, with the help of the Chicago-based American National Can.

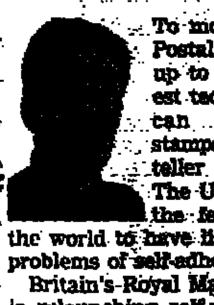
Coca-Cola's Frank Bifulco says the can is "just another tactile as well as visual cue to consumers to tell them that Coca-Cola is different, better and special". It starts, he says, with what you see on the shelf and what you feel in your hands, before the product even reaches your throat.

This seems to confirm what many have always said: that the mystique of Coca-Cola has little to do with how the stuff tastes. But one question that will have to be established by test marketing is whether people are prepared to pay more for a funny-shaped can than for the regular article, since it costs more to produce.

Richard Tomkins

Tim Jackson

A sticky end for stamps?



To most people, the US Postal Service may seem up to date with the latest technology. Not only can Americans buy stamps from automated teller machines (ATMs). The USPS is also one of the few post offices in the world to have licked the technical problems of self-adhesive stamps.

Britain's Royal Mail, by comparison, is relaunching self-stick stamps on a trial basis this month, two years after a disastrous first attempt in which customers found that used stamps could be recycled by wiping off the postmark with a damp cloth.

America's self-adhesive stamps are a boon to businesses that are too small to justify buying a postage franking machine, but too large to employ someone to lick stamps one by one. Yet E-Stamp, a technology company founded by a refrigeration engineer born in Tanzania, is working on far better ways to bring the benefits of franking machines to small businesses.

Like most truly original ideas, the concept behind E-Stamp seems almost obvious once you have heard it. It is this: to use a personal computer and a printer to issue and print stamps, and to use the Internet to allow users to prepay online for their franked mail. This approach saves customers money, because it makes use of existing equipment instead of requiring the purchase of a special dedicated machine.

It is also more convenient, because it saves the user from having to make a personal visit to the post office to prepay the postage, as most owners of franking machines do today. The system takes advantage of a new technology specification published by the US Postal Service called the Information Based Indicia. This is essentially a two-dimensional bar-code which includes the address not only of the recipient but also the sender, and includes details on the account holder which help to reduce postal fraud.

Salim Kara, the founder of E-Stamp, holds two patents which will give his company a strong position in the new market that develops. One is an "electronic vault" that the company claims will protect users of its services from having their prepaid postage either stolen from their PCs or lost forever in the event of a hardware crash. The other is a new design of envelope, containing a special second window allowing the bar-code showing that the sender has paid for the postage to be printed on the letter itself.

The envelope design alone could be worth millions of dollars a year to companies, because it removes one printing step from the mailing process. Traditionally, mass mailers have had to choose between printing the indicia (the sign proving prepayment) on the envelope and printing it on a stick-on label. For more complex mailings, the company has developed a way of connecting a $50 electronic scale to the serial port of a personal computer, so that the user can integrate weighing and stamping in one step. E-Trade has trademarked a protocol that allows computers to talk to postage scales, which is the mailing equivalent of Microsoft's Telephony Applications Programming Interface. E-Stamp calls it Postage Applications Programming Interface; Papi would be more catchy.

Sunir Kapoor, a veteran manager from Oracle and Microsoft brought in as E-Stamp's chief operating officer, refuses to specify exactly how the company proposes to make money. But there are clearly two possible routes: one is to sell the software and the weighing machines; the other is to earn commissions from prepaid postage sold over the Net. (Retailers of stamps in the US often charge a commission of 10 per cent on the face value.)

At first sight, the small office/home office market may not sound large enough to justify the effort. But Kapoor believes the opportunity is immense. He points out that there are 1.2m franking machines in the US, but 25m personal computers were sold last year and over 9m machines connected to the Internet are in use by small businesses.

Stamps account for $11bn of the US Postal Service's $54bn annual postage revenues, and Kapoor believes that the greatest part of this $11bn comes from small businesses sending mail rather than people sending birthday cards to their grannies. "If we could divert just 1 per cent of that market," he says, "we'd do very nicely."

The E-Stamp idea is brilliant. With a beta testing programme about to begin, I fully expect the company to deliver on its promise to offer a commercial product in the second half of 1997.

But the business does raise an alarming question. In the long term, the use of two-dimensional bar-codes is certain to make the US Postal Service more efficient, not only cutting down fraud but making it easier to track letters and packages as they make their way through the system, and providing a proof of delivery that is currently one of the key selling points of private courier services like FedEx.

Where does this leave old-fashioned stamps, however? Although the Post Office will no doubt continue to offer traditional stamps, self-adhesive or not, it is obvious that it will cost more to carry standard stamped mail than mail bearing the new barcodes. The downside, therefore, is that stamp prices in the long term must rise, and the range of colourful commemoratives that make mail such a pleasure to send and receive may become a thing of the past. Start collecting stamps now, while you still have the chance.

tim.jackson@pobox.com

Cyber sightings

● The UK chemical industry is documented by Sourcerer (*www.sourcerer.co.uk*), a database of more than 38,000 chemicals and 3,500 companies. Launched last week by the Chemical Industries Association, the site has a fast search facility which will list producers for any chemical, classified advertisements for the trade and agents representing companies outside Britain. A nice feature converts e-mail for companies not yet online into faxes, so all companies listed can be contacted through the site. Listing and access are free.

● Finding a personal finance adviser is becoming easier in the UK thanks to the Net. The excellent Moneyweb site (*www.moneyweb.co.uk*) has found a sponsor, allowing it to provide a free database of Independent Financial Advisors (IFAs). Like the rest of the site it is ugly but easy to use. Another British site, the Insurance Mall (*www.timl.co.uk*), allows searches for insurance brokers specialising in personal *insurance, business cover or* life assurance. The search facility works very well, but the rest of the site fails to live up to its promise.

● Tracking down company Websites often ends with a frustrated telephone call to the company, as even the stock exchange on which a company trades may not link to its site. In the US, hundreds of lists of sites exist and none of them are complete, so National Corporate Services' list of lists (*www.csn.net/natcorp/traded.html*), together with its advice on conducting rapid searches, is invaluable.

● For free e-mail to fax services, see *www.tpc.int*. The system forwards e-mail to a fax machine via computers maintained by volunteers or advertisers. Not all numbers are covered, but most of the US and Europe can now be faxed free.

james.mackintosh@ft.com

www.ft.com


FT
FINANCIAL TIMES
BERGKAM
10
Financial Times.
World Business Newspaper
Weekend FT.
Even more figures.
The new look Weekend FT. From Saturday, March 8.

BUSINESS EDUCATION

Alumni from the Insead class of 1968 talk to **Della Bradshaw**

Rewards of revolution

Insead

In the spring of 1968 Anthony Simon, then a student on the MBA course at Insead, in Fontainebleau, leapt into the car of an American fellow student and persuaded him to drive to Geneva. The students, all nearing the end of ieir course, were desperate to attend b interviews, but strikes had resulted a petrol shortage and only one stuent had enough to go the distance.

From Geneva, Simon flew to Brusls, completed his interview and then itch-hiked back to Paris. At 3.00 in the orning, waiting for a lift at the side of e Paris road, Simon heard vehicles oming towards him. What rolled down e road was not a car but a stream of nks. "They emerged out of nowhere," ecalls Simon.

Fellow student Edward Moerk emembers that day too. He was watchg television in the lounge at Insead hen he heard the rumbling sound of nks rolling through Fontainebleau to arry out President De Gaulle's orders nd take up position on the outskirts of aris.

The mood was one of excitement. There was a very positive attitude to e strike around," says Henri Frisch, ne of the class of '68 and now the head f Galia, the French representative on dette, the European car manufacturs' logistics project. "It was not like oday when everyone is negative about rench strikes."

But for many, particularly the majory of Insead students who were not rench, the intensity of the MBA ourse relegated their role in the strike that of spectator rather than particiant, particularly as in May that year ey were sitting their final exams.

And there were further distractions. We had our own revolt in January when we were very unhappy with one of the professors and we had him replaced," remembers Hélène Ploix.

For Ploix, there were battles to fight before even starting the course. Eager to become a consultant, she was determined to get a place at Insead, but the school had previously not admitted women because the course was taught *in a local monastery. In 1967 the new* campus was opened and so the first women were allowed in: two graduated in 1968 out of a student body of 150.

Ploix's ambitions were realised. On graduation she went to work for McKinsey in Paris. "I'd never have been hired by McKinsey if I hadn't been to Insead," she believes. After running a bank and advising French prime minister Laurent Fabius on economic and financial affairs, Ploix has come full circle and is now special adviser to KPMG Peat Marwick on the *issue of European monetary union.*

As with all MBA classes, Insead's alumni recall the hard work. But they remember the class's international character even more. With 27 nationalities represented the class was "a very rich melting pot", says François Vachey who has worked for L'Oréal since graduation, now as vice-president. Nearly 30 years on, Vachey says he chose to go to Insead because it was "the business school that was open to the world".

For Ploix the real international feel *came through in the evening study* groups of a dozen or so students. "Each group had to discuss a case for the next day. The different nationalities and experience made it very fruitful."

For Horst Grosspeter, managing director of his family company Quarzwerke, the decision to go to Insead was directly linked to his company's need to expand outside Germany. Today the industrial minerals company is number one in its field in the US.

Moerk, a Norwegian who completed his undergraduate degree at Birming*ham University in the UK, cites the* graduation trip to the US as an indicator of the respect with which Insead was held internationally.

One hundred or so of the class chartered a plane and flew to Chicago. They took buses to big companies and stayed with US families. And they were presented with their MBA diplomas in New York by David Rockerfeller at the top of the Chase Manhattan building.

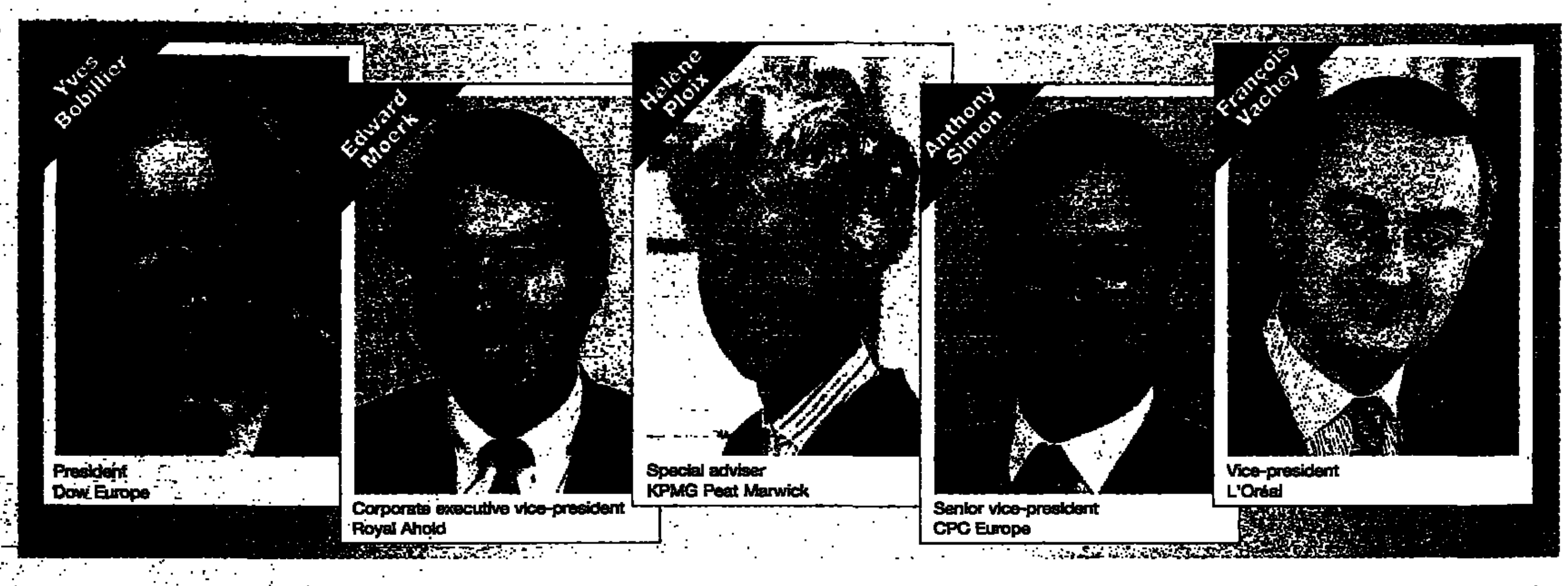
"Today everybody travels for everything," explains Moerk. "But for us, then, that was very special." Moerk worked in Europe, the US, Singapore and China before joining Royal Ahold nearly three years ago in the Netherlands as the corporate executive vice-president.

The choice of employer reflected the European aspirations of the course participants. Four graduates joined CPC Europe, the consumer food company responsible for the Knorr brand. Two are still there, including Simon, who is now senior vice-president of CPC Europe and was offered his first job with the company on that fateful spring day in Brussels.

The other is Angelo Abdela, vice-president of strategic and capital investments at CPC International in New York, working on strategies and acquisitions. "CPC was recruiting for Europe from its European headquarters in Brussels at the time," says Abdela. "It was the first company to take that kind of pan-European approach, which suited the Insead graduates."

Most graduates got six or seven job offers, says Yves Bobillier, who also accepted a job with CPC. A year later – "I wasn't swimming in my water" – Bobillier decided to contact Dow, which had also offered him a job on graduation. He has stayed with them ever since and today is president of Dow Europe in Switzerland.

An agronomist by training Bobillier's perspectives were changed by Insead. "Insead convinced me that even having an engineering background I had the whole world open to me."



President Dow Europe

Corporate executive vice-president Royal Ahold

Special adviser KPMG Peat Marwick

Senior vice-president CPC Europe

Vice-president L'Oréal

COMMENT & ANALYSIS

The menace to prosperity

Widening inequality poses a growing threat to US and other societies, says Robert Reich

The performance of the US economy over the past four years gives much to celebrate. Nearly 11m jobs have been added, most paying above the median wage. The rate of unemployment remains relatively low and there is still no sign of accelerating inflation.

The Clinton administration has also overseen an increase in the minimum wage to nearly 10m Americans, the earned income tax credit, which provides a cash supplement to workers at the very bottom rungs, and improvements in the protection and provision of worker pensions and healthcare.

Yet as the UK and western Europe contemplate adapting more of the "American model" it is worth noticing a more menacing side. Economic inequality has continued to widen. All the rungs on the economic ladder are now further apart than a generation ago, and the space between them continues to spread.

This widening of inequality leads to distress and misery for those at or near the bottom and anxiety for those in the middle. Left unchecked it could also undermine the stability and moral authority of the nation.

The widening in inequality of earnings, wealth and opportunity began more than 15 years ago, and the gap today is greater than at any time in the living memory of most Americans.

Income inequality has recently begun to narrow, largely because the vigour of the current economic expansion means more people are employed and working more hours. Elderly retired people are also doing better.

But earnings inequality among full-time adult wage earners has continued to widen – right through 1996.

The recent small narrowing of income inequality is only a tentative ebbing of a powerful tide. In 1995, the best paid 10 per cent of US full-time male workers earned 4.4 times as much a week as the worst-paid tenth – up from less than 3.2 times in 1979. Between 1980 and 1995, the real weekly earnings of the workers in the top tenth rose by 10.7 per cent while the median worker's fell 3.6 per cent. Workers in the bottom tenth saw their pay drop 9.6 per cent.

Between 1979 and 1995, the income of the richest fifth of American families grew by 26 per cent in real terms, while the income of the poorest fifth fell by 9 per cent. The bottom two-fifths of American families earn, in total, less than 15 per cent of the total income, while the top twentieth alone earn fully 20 per cent.

Some experts contend that nothing can be done about widening inequality. They view it as the by-product of structural changes in the US economy – most notably technological advances and global economic integration, which tend to reward the well-trained and penalise those with the poorest education and skills. The same phenomenon is occurring the world over, they say. We must adapt to this inevitability.

I believe they are wrong because the evidence from other countries and US history shows inequality rises and falls with the choices that a nation makes. Nations are not merely economic units but also societies.

Should a nation choose to push against the economic forces that would otherwise divide it, it has the ability to do so. The consequence of choosing otherwise – of pretending the choice is not ours to make – is eventually to cease being a society.

In the America of my youth, we were growing together. Between 1950 and 1978, most people on the top fifth of the income ladder saw their real incomes double and so did most people in the bottom fifth. An implicit social compact gave force to the simple proposition that prosperity could include almost everyone.

Societies are tied together – indeed defined – by such social compacts, which are partly explicit in laws and regulations and partly implicit in the kinds of behaviour considered morally acceptable or desirable. The social compact which generated the shared prosperity of the post-war decades in the US actually predated the second world war by several years, and had three essential elements.

The first element was corporate employment policy, which said that as companies did better, their workers should as well. Wages should rise as should employer-provided health and pension benefits, and jobs should be reasonably secure.

This element was reinforced by the trade unions, to which about 35 per cent of the private-sector workforce belonged by the mid-1950s. But it was enforced in the first instance by public expectations. We were all in it together, and as a result grew together. It would be unseemly if a company with increasing profits failed to share its prosperity with its employees.

The second element was social insurance through which Americans pooled their resources against the risk that any single person – through illness or bad luck – might become impoverished. The US social insurance system was never as comprehensive as those developed in most of western Europe, but it provided the bare essentials: unemployment insurance for those temporarily out of work; social security for the elderly and disabled; a minimum income for families with a single, jobless parent; health care for the elderly and very poor (Medicare and Medicaid).

The third element was the promise of a good education. In the 1950s, America's collective conscience, embodied in a Supreme Court decision, finally led us to resolve that all children, regardless of race, must have the same educational opportunities.

Schooling beyond 12th grade was also reaching an ever-larger portion of the population. The GI Bill had made college a reality for well over 1m veterans returning from the second world war. Others gained access to advanced education through a vast expansion of state-subsidised public universities and community colleges.

It is important for Europeans to understand what the US social compact was and what it was not. It defined the American sense of fair play, but it was not about redistributing wealth.

America's social compact merely proclaimed that as a society we depended on one another. The economy could not prosper unless vast numbers of employees had more money; none of us could be economically secure unless we pooled risks; a better educated workforce was in all our interests.

The marked widening of economic inequality that started in the late 1970s is attributable to several factors, including the rapid advance of information technology and the increasing integration of global finance and trade cited by those who are resigned to the trends continuing. But what has made such factors so powerful has been the breakdown in the past 15 years of all three elements of the social compact.

Profitable US companies now routinely downsize. As the Bureau of Labor Statistics has shown, redundancies at present are running at a higher rate than in the expansion of the 1980s.

The corollary to "downsizing" and "down-waging" might be called "down-benefitting". Employer-provided health benefits are rapidly declining for lower-wage workers, who are required to make bigger contributions or are losing benefits altogether. Occupational pension schemes offering defined benefits are giving way to plans that guarantee no level of retirement income – without employer contributions.

Yet top executives and their families receive ever more generous health benefits and their pension benefits are soaring in the form of compensation deferred until retirement. And although they have no greater job security than others, it is not uncommon for today's top executives to receive "golden parachutes" when they lose their jobs.

The second element – social insurance – is also breaking down. The poor and near poor have been asked to bear the largest burden in balancing the federal budget, with the largest cuts to their programmes.

Although the president has said he intends to rectify this, particularly the reduction in food stamps for the working poor and the elimination of benefits for legal immigrants, he will face strong opposition in Congress. Meanwhile, unemployment insurance now covers a smaller proportion of workers than 20 years ago – about 35 per cent of the unemployed.

In fact, the entire idea of a common risk pool is now under assault. Proposals have been advanced for the wealthier and healthier to opt out. Whether in the form of private "medical savings accounts" to replace Medicare, or "personal security accounts" to replace social security, the ultimate effect would be much the same: those who opt out would no longer share the risk with those who have a much higher probability of being sicker or poorer. Those left behind in the common pools would face higher costs.

The third part of the social compact – access to a good education – is also under severe strain. The Clinton administration has expanded opportunities at the federal level: more college grants to students from lower-income families; more low-interest direct loans for college; school-to-work apprenticeships; and several proposed tax credits and deductions to offset the costs of advanced education and training.

But there are powerful undertows in the opposite direction. Almost half of every dollar spent on the education of young people between five and 18 derives from local taxes on property. But as Americans increasingly segregate by income into different townships, it follows that local tax bases in poorer areas cannot support the quality of schooling available to the wealthier.

Although racial segregation is illegal, de facto racial segregation has become the norm in many large metropolitan areas. And across America, state-subsidised higher education is waning under severe budget constraints and its cost has risen three times faster than median family income. Young people from families with incomes in the top 25 per cent are three times more likely to go to college than young people from the bottom 25 per cent, and here too the recent trend is towards greater inequality.

Why is the social compact coming undone? Perhaps it is because Americans no longer face the common peril of Depression, hot war or cold war, and no longer feel the same degree of interdependence. Perhaps it is also true that in the global economy we no longer are as dependent on one another.

Or perhaps it may have to do with the fact that wealthier Americans are no longer under a "veil of ignorance" about their likely futures and those of their children, to use the felicitous phrase of John Rawls, the philosopher. They know any such compact is likely to require from them contributions exceeding their benefits.

As America congratulates itself, justifiably, for renewed economic growth and a diminished deficit, it is important to recognise the growing menace which widening inequality poses to this and any other society. The trends toward technological advances and globalisation cannot be reversed and nor should we aspire to reverse them.

But we need not blindly accept their social consequences. The federal budget should not be balanced so that the poorest in society bear the largest sacrifices. Social insurance such as Medicare and social security should not be reorganised in a way that encourages the wealthier and healthier members of society to withdraw resources.

On the contrary, the wealthier should be expected to contribute more than the less wealthy toward restoring the solvency of these trust funds, which are in danger of becoming depleted. Good schools, universities and opportunities for continuous learning must be available to all.

There is much to celebrate about America. The future is filled with possibility. But there is no escaping the underlying moral question, which is also a political one. It is the same question faced by many nations. Are we, or are we not, still in this together?

The author was secretary of labor in the first Clinton administration. He is now university professor and Maurice Haxter professor of social and economic policy in the Heller School of Brandeis University

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

Takeover strategy risks destroying value

From Mr Chris Waites.

Sir, Lex argues ("Valuing takeovers" February 21) that judging the merits of an acquisition by reference to whether or not earnings are enhanced in the short term is over-simplistic. This is beyond dispute. But in the stylised example is value really being destroyed?

The first comparison made is between the immediate return on investment (5 per cent, representing incremental earnings as a proportion of total acquisition costs) and the acquirer's cost of capital (assumed to be 10 per cent per annum). Of course, to make a proper comparison with the cost of capital it is cash flow rather than earnings measures that matter. We do not have the data to hand to make this assessment. But if the investment returns 5 per cent in cash terms in the first year and this is expected to grow on average by more than 5 per cent per annum, cost of capital requirements will be satisfied. It is worth noting that the market seems to be expecting earnings of the target company to grow reasonably rapidly, given the information provided on pre-acquisition earnings and capitalisation.

Lex goes on to compare the premium paid, including anticipated restructuring costs, with synergy benefits. The fundamental question surely ought instead to be whether the acquisition makes overall financial sense in strategic terms and in terms of the risks and rewards associated with the total expenditure on acquisition and restructuring.

Lex's final argument is that a greater benefit to immediate earnings per share can be achieved through a share buy-back. This reflects the fact that the immediate earnings yield on the acquirer's shares exceeds both the immediate return on the acquisition and the cost of borrowing. Surely here Lex is in danger of falling into the same trap of placing too much reliance on short-term earnings effects.

The real issue will usually be the question of the longer term prospects for both the acquirer and target. If the opportunities are there, then it may be that it is the share buy-back that is destroying value: precisely the reverse of Lex's argument.

Chris Waites,
Tillinghast-Towers Perrin,
Castlewood House,
77-91 New Oxford Street,
London WC1A 1PX, UK

Reform necessary before enlarging EU

From Professor Franklin Dehousse.

Sir, Some of us in Brussels are puzzled by Ian Davidson's comments on the preparation of the future enlargements of the European Union ("Deafening silence", February 26). We agree that "enlargement . . . cannot fail to bring about far-reaching changes to the Union". But the comment "nobody responsible – neither the Commission nor the member governments – is uttering a word about these transformations" seems unfair.

First, the Commission has written some reports on this need of thorough reforms. Many member states don't care; this is another problem. Furthermore, Belgium's position in the inter-governmental conference has always been based on the necessity of implementing far-reaching reforms in the Union before enlarging it. Without a generalisation of qualified majority voting in the Council, for example, the management of an enlarged Union of 25 member states will become simply impossible. In such a context, the next enlargement will not stabilise the central and eastern European countries. It will only destabilise the European Union. We shall not fulfil our promises to the new members concerning the improvement of the economic, internal and external security. And the European Union will become a pale copy of the United Nations.

Some member states prefer to ignore this fact. This is dangerous. First, if the institutional reforms of the IGC are not deep enough, this will probably create difficulties in the ratification process (at least in some of the oldest member states). Second, if these reforms are not sufficient, it will become more difficult to make them adapt some European policies (agriculture, structural funds and finances to begin with). In fact, each national veto that is maintained is going to become an additional stumbling block on the road to the enlargement. Third, should the enlargement occur, it will become absolutely impossible to reform the institutions in the future.

This debate had been prepared in Belgium for two years. I shall happily send to Mr Davidson a copy of the government's programme and the parliament's documents. I can even ask to have him invited for the next parliament's committee. He will see that there exists a general consensus about this (and, incidentally, such a thing as a civilised parliamentary debate about Europe – this will certainly be a shock).

Franklin Dehousse,
professor at the College of Europe,
special representative of the Belgian minister of foreign affairs for the IGC,
Rue des Quatre Bras 2,
B-1000 Brussels, Belgium

Warning to be heeded

From Mr Pieter Vlieland.

Sir, Your articles on Emu are always a valuable source of unbiased information on this big issue.

Apropos of which, it is worth recalling that only recently Mr Rolf Breuer, the influential head of the Deutsche Börse, pointed out that Frankfurt stands, and I quote, "a good chance of taking up a leading position in Europe should Great Britain not be part of the first group of Emu members."

This is a pretty stark warning that we in this country had better get our act together over currency union if we wish to preserve our livelihoods – and our future.

Pieter Vlieland,
chairman,
Central London Europe Group,
21 The Lodge,
Kensington Park Gardens,
London W11 3HA

Yugoslavia victim of double standard for IMF membership

From Mr Mike Finch.

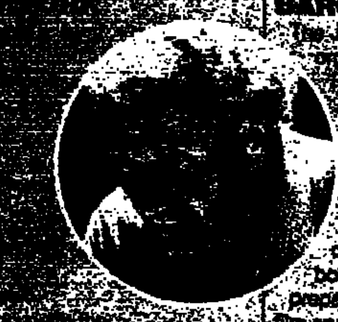
Sir, You report that Milosevic's Yugoslavia cannot apply to rejoin the International Monetary Fund and World Bank pending democratisation and progress on resolving the status of the minority Kosovo Albanians ("Serb banks teeter on edge of abyss", February 20). Would not the consistent application of the first criterion halve the membership of these two international organisations? Neighbouring Croatia would also fall foul of the second criterion.

Contrast Kosovo's mounting Albanian population with Croatia's clearance of the Krajina Serbs from what had been their "UN protected" ancestral lands.

What is astonishing is not the blatant double standard but that it goes unremarked.

Mike Finch,
5 Fairways,
Teddington,
Middlesex TW11 9PL, UK

ARTS



BARCELONA
The Joan Miró Foundation has organised an installation by Peter Greenaway, analysing the legend of Icarus from a contemporary perspective. The myth is examined in 30 sequences, with techniques that could be used both for preparing a film and reconstructing an historical event. It opens on Thursday and runs till May 25, accompanied by a series of Greenaway films.

LONDON
William Hogarth, born in 1697, was the first native-born painter to impress his personality on a whole period of British painting. The Tate Gallery opens the tercentenary celebrations tomorrow with a display of its unrivalled collection of Hogarth's paintings (right), together with some important works on loan.

The London Symphony Orchestra marks Mstislav Rostropovich's (left) 70th birthday with a series of concerts in which he plays and conducts the music of composers he has known. The first, at the Barbican on Saturday, includes Shostakovich's Tenth Symphony.

COLOGNE
The Ludwig Museum is the only European stop for a Jasper Johns (below) retrospective – the first comprehensive exhibition of his work for 20 years. First shown at New York's Museum of Modern Art, the exhibition has been expanded to include works from European museums and private collections. It opens on Saturday, and moves to Tokyo in the summer.

ROME
Trumpet virtuoso Wynton Marsalis (above) brings his jazz opera about slavery, *Blood on the Fields*, to Europe this week opening on Wednesday at the Teatro Santa Cecilia. Performed by the 15-piece Lincoln Centre Jazz Orchestra, the libretto is sung by Cassandra Wilson, Jon Hendricks and Miles Griffith. The tour reaches London's Barbican on March 18.

Alastair Muir

Peter Egan, Susannah York and Leslie Phillips in 'Camino Real' by Tennessee Williams

Theatre/Alastair Macaulay

Surreal and sinister love and loneliness

All the plays of Tennessee Williams are about characters who are, metaphorically speaking, down to heir bottom dollar. Williams was originally acclaimed as a realist, and is still known as one; yet, in many of his plays, life has reached a point where the real world has started to become unreal and where a vanity-of-vanities feeling has begun to arrive.

Nowhere is this more true than n *Camino Real*, a play first produced in 1953. The name "Camino Real" is – of course – ambiguous: "Royal Street" or "Real Street". And the place is more ambiguous yet: indeed, surreal. It s a police state – like Casablanca n the movie – which almost everybody longs to be allowed to eave. Now and then, characters die or are killed, and the streetsweepers dump their corpses into bins. There are two hotels, and characters from different eras in history and literature reside here: Casanova, Baron de Charlus, Marguerite Gautier, Lord Byron . . . characters for whom love, in its various species, was a key part of life. Don Quixote passes through. Often, *Camino Real* feels like a more bizarre version of the movie *Grand Hotel*, in which the lives of characters in separate orbits are seen to intersect.

When the play was new, it seemed obscure. Today, however, the part-surreal part-decadent climate of the play seems familiar. To my taste, this is terrain that few artists can cultivate well; Williams – with his marvellous poetic gift, his wit, and his pathos – succeeds at least part of the time. Maybe the right production could make this long, difficult, and seldom-seen play seem almost entirely successful. At any rate, Steven Pimlott's new staging for the Royal Shakespeare Company is a curate's egg.

Much of the play concerns the former champ boxer Kilroy, who – when trying to depart – is shanghaied and made into the place's patsy, wearing an illuminated red nose which he has to keep switching on and off. Later, in his life's last hour, he becomes again a champ and wins Esmeralda, the gypsy's daughter who has just regained her virginity (as she does each month, with the moon). In between, Marguerite Gautier tries desperately to leave the Camino; and Casanova, who deteriorates during the course of the play, is crowned King of the Cuckolds. It s a sign of Williams's skill that he makes much of this tosh enthralling.

But Peter Egan and Susannah York, despite the refined authority they bring to Casanova and Marguerite, make their more lyrically regretful speeches sound nothing but phoney. Darrell D'Silva, despite a tentative Southern (American) accent, does better as Kilroy. He has the combinations of manliness and vulnerability, and of doom and innocence, that this role needs. Emily Bruni makes the shallow mysteries of Esmeralda both funny and lively. Amid the large cast, David Collings is a memorably suave, corrupt Charlus ("My normality" – licking his lips – "has been subject to question"), Cherry Morris an elegantly prudish, hypocritical Lady Mulligan, and Jeffry Wickham a perfect Don Quixote, haunted and isolated.

A theme that Williams introduces with Quixote and then develops with other characters is the loneliness of existence – the sudden pang of feeling yourself deserted or friendless or desperate, and knowing you have to carry on somehow to the end. And, at several points, his writing makes this superbly eloquent.

The finest performance, in the role of the sinister hotel manager Gutman, is by Leslie Phillips. Even though his accent is imperfect, he acts with complete relaxation, and his planting of words onto the air is masterly. Gutman is a controlling figure, and yet Phillips carries with him an air of resignation and failure. Could the death-dealing street-cleaners come for him too? He knows they could. "And that's what curdles my blood like milk on the doorstep of someone gone for the summer."

The simile, from Phillips's lips, is effortless; and his voice is one who has long been acquainted with the curdling of his own blood.

In RSC repertory at the Swan Theatre, Stratford-upon-Avon.

Out with the devil

Jackie Wullschlager on a mystery cycle for the 1990s

We live in a secular society in Britain, with fewer observant Christians than at any time in history – a recent survey showed the number of Anglican churchgoers at a record low of 1m, matched by 1m Catholics, and between 1m and 3m Moslems. However, perhaps because our pre-millennial times are obsessed with origins of any sort – chaos theory, the formation of a human life – we are intellectual junkies when it comes to the roots of Christianity and the historical facts surrounding the life of Jesus.

I was brought up a committed atheist, and I remember my shock and outrage – why had no one told me? – when I came across the documentary evidence that Jesus had not only existed but had lived at Galilee in the first century A.D., had been a religious teacher, and had been executed by the Romans. Today, the story of Christianity's formative years is the stuff of popular television series like Mark Tully's recent *The Lives of Jesus* (2m viewers), of bestsellers such as Robert Eisenmann's *The Dead Sea Scrolls Uncovered* (300,000 copies) or AN Wilson's biography of Jesus (50,000 copies). This month both these authors have controversial new books out – Eisenmann's *James the Brother of Jesus* (Faber) and Wilson's biography of Paul (Sinclair-Stevenson) – while the theatre also enters the fray with a radical revisionist staging of the religious mystery plays *The Creation* and *The Passion* at the RSC's The Other Place, Stratford, opening this week.

"It was a big body blow," says RSC director Katie Mitchell, "to find that the gospel writers tried to hijack Judaism to service their own ends." Out of her mystery cycle go standard scenes like the Three Kings and the shepherds, for which there is no historical *evidence. Out too* are the Devil, Herod's slaughter of the innocents, and Judas the betrayer. "The entire Crucifixion story is 80 per cent built on the premise of a prophecy fulfilled, it's not purporting to tell events as they were," says dramaturge and bishop's son Edward Kemp. He became "fantastically angry with the gospel writers" for their inventions and inaccuracies – "why couldn't someone just write the truth about what Jesus did?" – as he adapted the plays during rehearsals. "The text changed every single day."

What is left is a medieval drama for the 1990s. Each decade has its mystery play. Tony Harrison's *Crucifixion*, promenading around the riverside terraces of the new National Theatre, was a hippy version for the 1970s, Bill Bryden's folk-rock and audience participation *Mysteries* at the Cottesloe was an extrovert 1980s piece of theatrical experimentation. Unlike them, Mitchell's *Creation* and *Passion* favour intimacy and reflection, over pageantry and crowd scenes. In the 15th century, mystery cycles were performed by guild members on carts which paraded around a town: thus the promenading, participatory productions of the 1970s and 1980s.

But Mitchell uses the little-known N-town cycle which is closer to continental passion plays such as Oberammergau, and suits the static setting of The Other Place, with a modern audience watching an intense exchange on stage. So in *The Passion*, instead of Jesus as mesmerising leader rallying the crowds, a series of dynamic, charged interactions between Jesus and various individuals – the rich young man, a disciple, a Pharisee – present Christ as a sort of inspired 1990s shrink, helping others find their own spiritual salvation but, in Freudian tradition, not giving direct answers. "Jesus brilliantly understood individual psychology, what triggers you press to get through to people," says Kemp. "He saw, for example, that the rich young *man has to get rid of everything* if he is to achieve his paradise."

> *The challenge on stage is to play this psychologically sophisticated character, Jesus, in whom we can all see ourselves, without losing the spiritual grandeur of the medieval vision*

Mitchell sees "a direct line from Christianity to socialism" and wanted above all to avoid "shoring up Catholicism, anti-Semitism and sexism". She emphasises strong female roles – Mary Magdalene is a disciple not a prostitute – and chose the N-town cycle partly because it gives greater space to the women in the Bible. She is less interested in the good versus evil battle of a traditional mystery reading – hence no Devil – than in an individual's spiritual dilemmas. Her Judas, for example, acts in collusion with a Jesus seeking an agent for his own sacrifice. "For Judas," says Kemp, "it's an act of love, like Abraham prepared to sacrifice his son – then he finds he can't handle it."

Where do these contemporary types leave the medieval plays? "Paradoxically, we left them so far behind we meet them coming the other way," says Kemp. There is a directness, a borderline between simplicity and simple-mindedness, which medieval and modern drama share. The stark, bold action and the flexibility of text – adapters pick and mix from different mystery cycles, York, Chester, N-town – offers each age a model against which to work out its responses to the seminal stories of our culture, and are one reason why secular audiences are repeatedly drawn to the mysteries. Like other influences from folk and primitive art, the mysteries lend themselves to the less text-based, more physical performance which has in the last 20 years hugely broadened the range of British theatrical experience.

Mitchell's RSC production of *The Dybbuk*, based on a Jewish myth, was a fine example of this style. Another is Nancy Meckler's adaptations of 19th-century novels such as *The Mill on the Floss*, which use a highly emotionally expressive form of acting to physicalise the secret thoughts of complex characters. Will this work in *The Passion* to draw out what Mark Tully in *Lives of Jesus* called the "Hidden Jesus"?

Tully locates this figure in the riddles and paradoxes of the apocryphal gospel of Thomas, with their suggestion that spiritual truth is for each individual to discover for himself. This is not far from AN Wilson's thesis of Paul as "the first of the great romantic poets" who crystallised the idea of Jesus as an "inner light" and so founded Christianity. The heart of Kemp's Jesus, too, is "about taking responsibility for yourself"; Kemp's way into the mysteries was to "draw up a list of oppositions – altruism versus selfishness, responsibility versus irresponsibility, community versus individualism . . . issues that were current to Jesus and still seem pretty current now".

If this sounds quasi-Buddhist, quasi-Blair, that is the price you pay for stripping a symbol down to historical fact and adding a layer of contemporary values. Theatre is about holding the mirror up to nature: the challenge on stage is to play this rational, benign, psychologically sophisticated character in whom we can all see ourselves without losing the spiritual grandeur of the medieval vision.

The Creation and The Passion open at The Other Place, Stratford-upon-Avon, on March 7.

INTERNATIONAL ARTS GUIDE

■ BERLIN

CONCERT
Konzerthaus Berlin Tel: 49-30-203090
● Orchester der Deutschen Oper Berlin: with conductor Rafael Frühbeck de Burgos perform works by de Falla and Stravinsky; Mar 4

DANCE
Staatsoper Unter den Linden Tel: 49-30-20354438
● Dix: a choreography by Roland Petit to music by Berg, Blacher, Blake, Hindemith, Künneke, Schönberg, Stravinsky, Weil and Zimmermann, performed by the Staatsopernballett; Mar 5, 7

EXHIBITION
Berlinische Galerie - Landesmuseum für Moderne Kunst, Photographie und Architektur Tel: 49-30-254860
● Neueinrichtung der Sammlung: exhibition of works from the museum's collection, some of which were recently acquired or reconstructed. The focus of the exhibition is on the art movements Constructivism, Dada and Fluxus and on the representation of nature in art. Artists represented include El Lissitzky, Vladimir Tatlin, Christiane Möbus, Zaha Hadid, Daniel Liebeskind and Günter Behnisch; to Mar 17

■ BRUSSELS

CONCERT
Palais des Beaux-Arts Tel: 32-2-5078200 (Concerts)
● Koninklijk Filharmonisch Orkest: with conductor Grant Llewellyn and pianist Till Felner perform works by Debussy, Mozart and Vaughan-Williams; Mar 6

■ DRESDEN

EXHIBITION
Albertinum Tel: 49-351-49140
● Plastik der Renaissance und des Barock aus eigenen Beständen: exhibition of Renaissance and Baroque sculptures in marble and bronze from the museum's collection. The works on display span from the 15th through to the 18th century, including works by Filarete, Francesco di Giorgio Martini, Giambologna, Duquesnoy, Heermann and Permoser; to Apr 13

■ LONDON

CONCERT
Purcell Room Tel: 44-171-9604242
● Florestan Trio: perform works by Brahms and Schubert; Mar 6
Royal Festival Hall Tel: 44-171-9604242
● Philharmonia Orchestra: with conductor Christoph von Dohnányi and baritone Olaf Baer perform works by Schubert and Berio; Mar 5

EXHIBITION
Victoria & Albert Museum Tel: 44-171-9388500
● In Pursuit of Old Masters: at the end of 1994 the Victoria & Albert Museum received more than 300 Arundel Society watercolours in a transfer from the National Gallery. The society, an antiquarian and educational association, was founded in 1848 with a view to improving public artistic education through the copying and publishing of examples of Italian art before Raphael. This display follows the history of the society and includes prints in line, colour and wood engraving; to Mar 30

OPERA
Royal Opera House - Covent Garden Tel: 44-171-2129234
● Cosi fan Tutte: by Mozart. Conducted by Dietfried Bernet, performed by the Royal Opera. Soloists include Melanie Diener and Leah-Marian Jones; Mar 4

■ MADRID

EXHIBITION
Museo Nacional Centro de Arte Reina Sofia Tel: 34-1-4675062
● Juan Soriano: Retrospectiva: *1937-1997: retrospective of work* by the Mexican artist, featuring 45 oil paintings, 12 bronze sculptures and 50 drawings; to May 2

■ MEXICO CITY

EXHIBITION
Museo del Palacio de Bellas Artes Tel: 52-5-5101388
● ?BUNUEL! La mirada del siglo: this exhibition, centered around Luis Buñuel's film "La edad de oro", focuses on work by people who inspired Buñuel or were themselves inspired by his work. The display features some 500 pieces, including paintings, drawings, sculpture, books and photographs. Artists represented include Dalí, Miró, Magritte, Giacometti, Picabia, Ernst, Tamallo, Man Ray, Alvarez Bravo and García Lorca. Also on display are 50 photographs of Buñuel working on a film shoot, taken by Gabriel Figueroa; to Mar 12

■ MUNICH

EXHIBITION
Haus der Kunst Tel: 49-89-211270
● Richard Lindner - Retrospektive: the first large-scale exhibition of the illustrator and pop artist since his death in 1978. On display are 66 pieces, covering his early work from the 1940s through to later paintings where he used bold colours to recreate everyday images; to Apr 27

OPERA
Cuvilliés-Theater - Altes Residenztheater Tel: 49-89-296836
● Carmen: by Bizet. Conducted by Jacques Delacôte and performed by the Bayerische Staatsoper. Soloists include Caroline Maria Petrig, Silvia Fichtl, and Stefania Toczyska; Mar 6

■ NEW YORK

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● Christian Dior: exhibition presenting the achievements of Christian Dior, who in the 10 years from 1947 to 1957 laid the foundations of post-war fashion. Beginning with the 1947 New Look, Dior gave the postwar period its most important fashion icon of renewal and optimism. The exhibition is drawn primarily from the collection of The Costume Institute and includes more than 80 pieces; to Mar 23

JAZZ & BLUES
Carnegie Hall Tel: 1-212-247-7800
● The Carnegie Hall Jazz Band: featuring pianist Elaine Elias, vocalist Maucha Adnet and guitarist Romero Lubano; Mar 6

■ PARIS

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● Jean Tinguely: exhibition of pieces by the French sculptor who's work was heavily influenced by Dada and Surrealism, producing purposely amateur machinery as a satire on the new technological world; to Apr 21
Fondation Cartier pour l'Art Contemporain Tel: 33-1 42 18 56 50
● Double vie, double vue: exhibition featuring 150 works by 60 international photographers. Included are portraits of twins by artists such as Diane Arbus, Laura Samson-Rous, Imogen Cunningham and Pere Formiguera, as well as pieces by photographers who work in pairs, including Felten and Massinger, Aziz and Cucher, Van Lawick and Müller, McDermott and McGough, and Minkoff and Olesen; to Mar 16
Musée d'Orsay Tel: 33-1 40 49 48 14
● Théophile Gautier, la critique en liberté: exhibition examining the life and times of art critique Gautier and featuring work by artists who were his contemporaries, including Delacroix, Manet and Moreau; to May 18

■ SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall Tel: 1-415-864-6000
● San Francisco Symphony: with conductor Jukka-Pekka Saraste and violinist Raymond Kobler perform works by Lindberg, Walton and Beethoven; Mar 5, 7, 8

WORLD SERVICE

BBC for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

(Central European Time)

MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

FINANCIAL TIMES
Monday March 3 1997

Swiss Telecom's flotation given green light for 1998

Country's first big sell-off could raise more than $3bn

By William Hall in Zurich

The Swiss government has given the go-ahead for the country's first big privatisation. It plans to sell up to 49 per cent of Swiss Telecom next year in an initial public offering which could raise up to SFr5bn ($3.4bn) on the international capital markets.

The government announced at the weekend that the department of transport, communications and energy would prepare for a stock market float of Swiss Telecom in the second half of 1998.

The government has retained J.P. Morgan as an adviser, and Credit Suisse First Boston is advising Swiss Telecom.

Switzerland, which is following the European Union timetable for liberalising the telecommunications market, will open its market to full competition from next year.

It is splitting the parent company Swiss PTT into two separate businesses. The Postal Service, which employs nearly 40,000 and has reported its first profit since 1945, will remain state-owned, but the profitable telecoms business, Swiss Telecom, which employs about 20,000, will be partially privatised. A full privatisation is not envisaged since this would require a change in the country's constitution.

Switzerland, with 4.5m exchange lines for its 7.3m population, has one of the highest density phone networks in the world. It is being rapidly digitalised.

The combination of high profit margins on domestic business and Switzerland's position as the seventh-biggest market in outgoing international telephone calls is expected to attract considerable investor interest, in spite of the crowded agenda for international telecoms issues over the next 18 months.

Swiss Telecom's pre-tax profits nearly doubled between 1993 and 1995, to SFr1.4bn on sales which rose 11 per cent to SFr10.5bn. But the company's 1996 profits, which were released on Friday, fell 48 per cent to SFr746m as a result of a restructuring charge. Cash flow in 1996 was SFr3.9bn.

Bankers involved in the privatisation of Swiss Telecom say it is too early to value the business. Its balance sheet will have to be restructured and its pension obligations sorted out before privatisation. Nevertheless, the company is one of the more efficient international operators and, based on its cash flow, could support a market capitalisation of more than SFr10bn.

But the sale to the international investment community will be tempered by the arrival of new competitors in its home market.

McDonald's franchisees agree to slash burger prices

By Richard Tomkins in New York

US franchisees of McDonald's, the fast food company, have overwhelmingly approved the company's plan to slash prices in an effort to stimulate flagging sales in the intensely competitive burger market.

The sales campaign, which will see the price of a Big Mac cut from $1.90 to 55 cents, comes in response to slowing market growth and tough competition from Burger King, owned by Grand Metropolitan of the UK, and Wendy's International. It marks an abrupt shift from the company's previous strategy of introducing more high-priced items.

Called "Campaign 55", the promotion will commemorate Mr Ray Kroc's 1955 opening of the first McDonald's in the Chicago suburb of Des Plaines.

The campaign, due to start in 55 days, is expected to include improved service as well as price cuts. McDonald's denied reports that customers would be offered a free burger if their order failed to arrive in 55 seconds.

Announcing the franchisees' decision late on Friday night, McDonald's said the vote in every region was well ahead of the 75 per cent required when outlets are asked to take part in a national programme.

There had been speculation that the franchisees, which own and operate 85 per cent of the 12,094 McDonald's restaurants in the US, might vote against the plan because it would erode profit margins.

However, Wall Street analysts have pointed out that the price cuts are not as big as they appear. If a 55 cent Big Mac is bought with a full-price serving of fries and a drink, the total outlay is only about 5 per cent less than the cost of the same items bought as a combination meal.

The franchisees, which are as worried as McDonald's about the company's loss of market share, appear to have calculated that they have more to gain from increased sales than they will lose from thinner margins.

Mr Jack Greenberg, chairman of McDonald's USA, said: "We are pleased that our owner-operators weighed the facts carefully and came to the same conclusion as we did. This initiative will be good for customers, our franchisees and our business."

Other fast food operators have said that they will maintain prices at current levels, but analysts say a price war could break out.

Ex-banker seeks top schools job in LA

Continued from Page 1

with posters warning "No Guns", and similar worthy strictures against the use of knives and drugs.

Bare concrete schoolyards are surrounded by ugly steel mesh fences to keep students in and molesters and other predators out.

The appointment of a professional manager would be a rare occurrence in a system where bureaucrats and their political backers have traditionally held sway.

Mr Siart said the school district needed management and a focus on results, rather than another educational specialist.

Among his primary aims would be bringing academic test scores up to at least the national average.

"We business people have always talked about education as a priority. But historically it has not been done very well," Mr Siart added.

Californian schools were recently ranked 37th of 50 states on academic achievement. Only Washington DC scored worse in an assessment of mathematical ability among 9-10-year-olds.

Californian employers, Mr Siart said, were increasingly concerned about the availability of adequately educated job candidates, and the region's ability to attract investment and highly qualified employees from other states.

Mr Siart said he had not applied for the post for lack of other offers. "When I left First Interstate I ended up very well off financially and I don't have to do anything I don't want to do. This, I want to do," he said.

Castro courts the capitalists

By Pascal Fletcher in Havana

As smoke from thousands of dollars worth of Havana cigars coiled to the ceiling, a beaming President Fidel Castro resisted the temptation to lecture his wealthy audience about the evils of capitalism.

Mr Castro, in his familiar olive-green military uniform, stood out from his dinner-jacketed and bejewelled guests. He may have considered that a tirade against capitalism, a favourite theme in his revolutionary repertoire, would not have been appropriate for an audience bidding thousands of dollars for cigar-filled cabinets he had autographed. They fetched up to $60,000 each.

The guests sitting before him – more than 700 cigar distributors, capitalists and *bons vivants* from around the world – had paid $500 apiece to attend a cigar-sampling gala dinner at the famous Tropicana Club, a relic of pre-Castro Havana nightlife which Cuba's Communist government has shrewdly preserved.

The glittering social gathering capped a week of events to mark the 30th anniversary of the Cohiba, a premium Havana cigar brand created by Mr Castro after the 1959 revolution.

More than 100 of the guests had even travelled to Havana from that neighbouring bastion of capitalism and "imperialism", the US, to taste the forbidden fruit of Havana cigars.

In doing so, they were blowing smoke at the 35-year US economic embargo against Cuba, under which travel by US citizens to the island is restricted. Many of the Americans present – including businessmen, entrepreneurs, restaurateurs and hoteliers – were not keen to be photographed or interviewed.

What a shame, Mr Castro said, that the US trade embargo prevented US president Bill Clinton from enjoying Havana cigars.

Boosted by foreign financing, Cuba's tobacco production is recovering from a recent decline and the island exported a total of 70m cigars in 1996, earning more than $100m in hard currency.

THE LEX COLUMN

Defusing the bonus

The Bank of England's analysis of how bonus structures can skew traders' appetites for risk could hardly be better timed, given NatWest's recent problems with a wayward options trader. The Bank correctly points out that a typical bonus structure – in which a trader's remuneration rises with the profits he generates – is like a call option. As revenue goes up, so does his bonus; but if there are big losses, the most he loses is his job. Paradoxically, the common practice of dismissing traders when they lose money can also increase risks. A trader in the relegation zone may have everything to gain and nothing to lose by raising the stakes.

The defects of all-or-nothing bonuses, where an award is made only when a specific target is hit, are perhaps even greater. A trader just shy of the target has an incentive to take huge risks. Equally, once the target has been met, the trader could be excessively risk-averse.

The best way of avoiding one-way bets is to pay traders deferred bonuses – allowing banks to claw back awards made in previous years if there are losses. The Bank points out that this is unpopular with employees. But that is hardly a reason to stick with the wrong bonus structure. Employers should be prepared to make compensating adjustments to other elements of their traders' package as a quid pro quo. And those traders who still do not like it should be regarded as high risks and shown the door.

BA/American

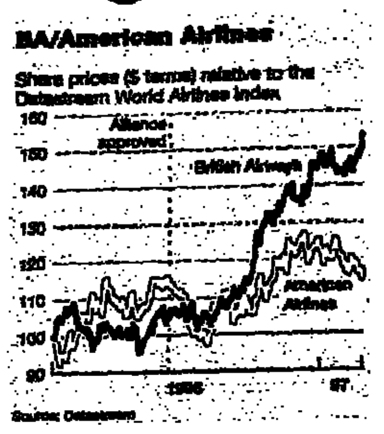
Befuddled or bored by the tortuous progress of British Airways' and American Airlines' planned alliance? By now, most investors are both. But through a fog of propaganda and regulatory double-talk, it is important to keep an eye on the essentials of the process.

Start with the regulators. Now the UK authorities have said their bit, the alliance needs approval in the US. With American's competitors squawking loudly, this will be slow and difficult. But the underlying fact remains: the UK is dangling a succulent carrot – opening London's Heathrow airport – which the US badly wants. Yes, more Heathrow slots will probably have to be offered. Yes, some US destinations may be excluded. But in the end, the chances of the US killing the plan look slim.

What then of the European Commission? Here too there are good reasons not to fret. Assuming BA/AA have to offer more slots to please US regulators that should also help appease Mr Karel Van Miert, the competition commissioner. But even if not, he cannot block the deal; he can merely ask the Commission to refer it to the European Court. The Court would then have to find that the UK's decision contravened the deeply fuzzy Treaty of Rome. And even if it did? Most likely, BA/AA would just have to give up yet more slots.

BA/American Airlines

Share prices ($ terms) relative to the Datastream World Airlines index



Source: Datastream

Shedding further slots matters only if they have to be given away for less than they are worth. Unfortunately, this is exactly what Mr Van Miert claims European law requires. And hopes of legalising the present under-the-counter slot-selling in time to help BA/AA now look forlorn. So do BA/AA simply go ahead and sell, risking a court challenge from the Commission? Probably. But the risk of a successful challenge cannot altogether be ruled out.

How much would that matter? Between them, BA/AA are being asked to shed slots worth £150m-£200m ($243m-$324m, based on the last public trade in Heathrow slots), or £300m (based on BA's average Heathrow profitability). Is it worth it? The alliance's finances are tricky to gauge since the airlines have said little on the subject. Nevertheless, the analysis can go beyond simply reckoning on a bigger variant of BA's old alliance with USAir.

The equation has three main parts. First is the damage that more competition is bound to do to prices. But this should be far outweighed by the revenue gains from plugging together BA/AA's transatlantic services with American's domestic network and BA's European routes. Why? Simply because of airline economics; in a low-margin, highly-geared business, bums on seats count more than anything.

But in an alliance of this size, costs cannot be forgotten. Costs attributed to BA North Atlantic services are roughly £1.7bn a year. Even if just 5 per cent can be cut, operating profits from these services would be lifted by 35 per cent.

To arrive at a net increase in BA's *overall* pre-tax profits of £150m-£200m a year from such assumptions – roughly 20 per cent – is surprisingly straightforward. Yet little credit for this potential is given in the company's share price, which still stands at a 20 per cent discount to the market average prospective price/earnings multiple. Peer through the regulatory forest and the shares look cheap.

Hotels

Hotels have become the latest hotbed of mergers and acquisitions activity. Hotel companies are generating substantial cashflow after years of recession at the same time as the industry has picked up the mantra of consolidation. And the number of deals, and prices paid, is rising fast. Hilton Hotels set the ball rolling with its $6.5bn offer for ITT and its Sheraton brand. Now, the competition is worried about getting left behind. Marriott paid $1bn for the Renaissance Hotel group, a deal which may not enhance earnings until [illegible]. [illegible] has announced plans to [illegible] over the next three years, and Four Seasons is chasing Lonrho's Princess Hotels resort chain.

The Renaissance deal suggests the market is getting a little frothy, but the logic for consolidation is compelling. The aim is to have an unmatched booking network, with consistent quality of hotels around the globe. Economies of scale provide a more competitive cost base. But more importantly, a global presence makes loyalty programmes more seductive, and gives clout for negotiating with multinational corporate clients.

More US bids are likely, particularly at the four star end of the market. But the next wave could be international deals, as US companies buy global reach at a time when properties can still be acquired at below their construction cost. Granada's Meridien chain is an obvious candidate, and Inter-Continental Hotels would probably prefer a trade sale to its planned flotation.

FT WEATHER GUIDE

Europe today

Scandinavia will continue to be unsettled. Norway will have cloud and rain, while Denmark and Sweden will have bright spells and showers.

A similar pattern will occur over the British Isles, with England and Ireland staying dry and showers in Scotland.

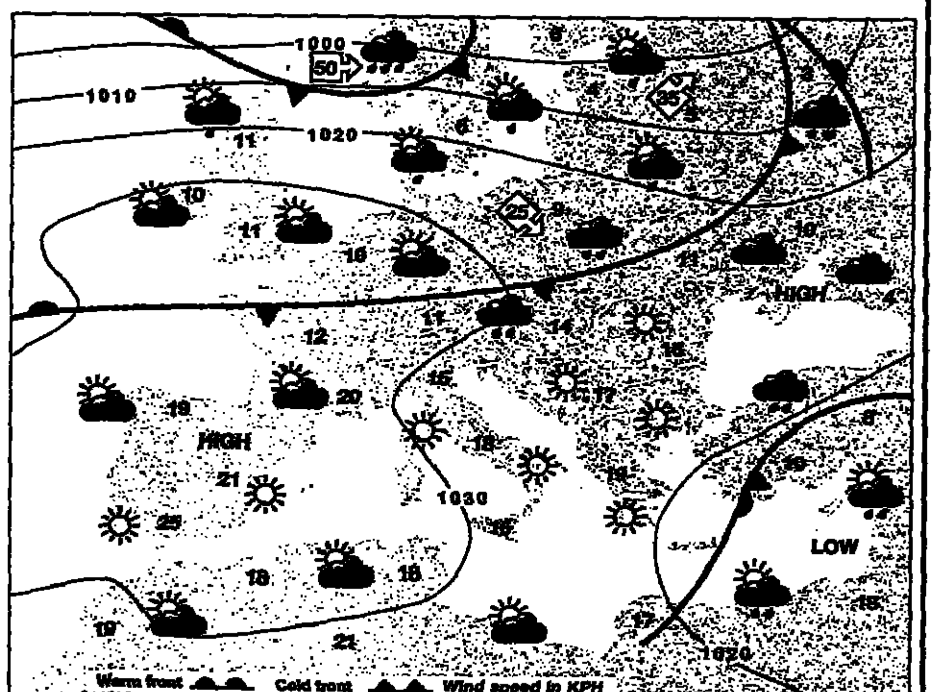
A band of cloud and rain will move southward over France and central Europe. Bright periods will follow in its wake. Southern Europe will be mostly sunny, dry and mild.

Eastern Europe will be covered by an extensive cloud mass accompanied by patches of rain and fresh westerly breezes. The eastern Mediterranean will have several heavy showers.

Five-day forecast

Central and western Europe will be mostly dry with sunny periods. The western Mediterranean will have afternoon temperatures well above 20C.

North-western Europe will remain unsettled, but mild.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 9	Caracas	fair 28	Faro	sun 21	Madrid	sun 21	Rangoon	sun 36
	Celsius	Belfast	cloudy 9	Cardiff	cloudy 9	Frankfurt	shower 12	Majorca	sun 18	Reykjavik	snow -1
Abu Dhabi	sun 24	Belgrade	sun 17	Casablanca	fair 19	Geneva	cloudy 16	Malta	sun 17	Rio	shower 27
Accra	thund 31	Berlin	sun 10	Chicago	fair 5	Gibraltar	sun 18	Manchester	fair 10	Rome	sun 18
Algiers	fair 18	Bermuda	fair 25	Cologne	fair 11	Glasgow	rain 9	Manila	drzzl 32	S. Frsco	cloudy 14
Amsterdam	fair 10	Bogota	shower 21	Dakar	sun 31	Hamburg	fair 9	Melbourne	shower 21	Seoul	fair 8
Athens	sun 14	Bombay	sun 35	Dallas	sun 23	Helsinki	fair 6	Mexico City	sun 27	Singapore	cloudy 32
Atlanta	thund 20	Brussels	cloudy 9	Delhi	sun 31	Hong Kong	fair 25	Miami	sun 29	Stockholm	fair 8
B. Aires	sun 27	Budapest	cloudy 14	Dubai	sun 25	Honolulu	cloudy 28	Milan	sun 17	Strasbourg	rain 14
B.ham	fair 10	C.hagen	cloudy 7	Dublin	cloudy 10	Istanbul	sun 10	Montreal	fair -2	Sydney	fair 21
Bangkok	fair 37	Cairo	fair 19	Dubrovnik	sun 19	Jakarta	fair 29	Moscow	cloudy 6	Tangier	fair 20
Barcelona	fair 18	Cape Town	shower 24	Edinburgh	shower 9	Jersey	cloudy 10	Munich	rain 14	Tel Aviv	shower 18
						Karachi	sun 31	Nairobi	fair 30	Tokyo	cloudy 13
						Kuwait	fair 23	Naples	sun 17	Toronto	fair -1
						L. Angeles	fair 19	Nassau	fair 29	Vancouver	rain 7
						Las Palmas	fair 23	New York	cloudy 6	Venice	fair 13
						Lima	fair 28	Nice	sun 17	Vienna	rain 14
						Lisbon	sun 24	Nicosia	shower 18	Warsaw	fair 10
						London	fair 11	Oslo	shower 6	Washington	rain 8
						Lux.bourg	fair 10	Paris	rain 12	Wellington	cloudy 19
						Lyon	cloudy 17	Perth	sun 30	Winnipeg	snow -8
						Madeira	fair 22	Prague	cloudy 11	Zurich	drzzl 15

COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Monday March 3 1997

Dangers in Jerusalem

Last week's decision by Israel to build homes for 30,000 Jews in occupied Arab east Jerusalem is a serious blow to the Oslo peace process with the Palestinians, and therefore to the stability of the Middle East. This is not just another settlement on conquered Arab land. The dispute over the Holy City goes right to the heart of this century's conflict between Arab and Jew over Palestine.

The Har Homa settlement, on the hill known to Arabs as Jabal Abu Ghneim, differs in one vital respect from the ring of Jewish neighbourhoods implanted in east Jerusalem after Israel captured it in the 1967 Middle East war. It will seal off the last corridor through which Arab Jerusalem, claimed by Palestinians as the capital of the independent state which they hope Oslo will deliver, can be linked up to the West Bank.

The future of Jerusalem, which Israelis regard as the eternal and indivisible Jewish capital, was to have been the last of the intractable issues left by Oslo to "final status" negotiations due to begin on March 17. But by then, according to a spokesman for Mr Benjamin Netanyahu, the prime minister, the bulldozers will be in Har Homa.

The decision is pre-emptive, premature and very dangerous. Three days of ferocious fighting between Israeli troops and Palestinian police followed Mr Netanyahu's decision last September to open a tourist tunnel near the Moslem holy places in the Old City. This incident seriously threatened the Oslo process.

Reaction to this latest move has been uniformly negative from all those with a stake in the region's stability. Israel's closest peace partners, Egypt, Jordan and Morocco, are leading Arab efforts to seek emergency sessions of the UN Security Council, the Arab League and the Jerusalem Committee of the Organisation of the Islamic Conference.

The EU says Har Homa flouts international law. The US, as chief mediator in the peace process as well as Israel's closest ally, expressed its dismay at this "further complication of an already complicated situation".

Mr Yassir Arafat, the Palestinian leader, has so far enforced restraint on his people. He meets President Bill Clinton in Washington today, hoping the US will use its influence to restrain Mr Netanyahu. Since neither the Israeli nor the Palestinian leader can give up the claim to Jerusalem, the best hope is that Israel will find procedural and legal reasons to delay actual construction at Har Homa, and buy time for the peace process to take root.

If Jerusalem can be pushed back to the end of the negotiating queue, both sides may find there is more room to negotiate than they think.

A recent study by Israel's Guttman Institute and the University of Maryland suggests that while Jerusalem is a crucial symbol for all Israeli Jews, around half of them attach little importance to Arab areas outside the Old City. So there may be margin for manoeuvre, but only if both sides show restraint, good faith, and above all, statesmanship.

Bonus fever

The suspension on Friday of a National Westminster Bank executive for failing to supervise aggressive pricing by an options trader highlights the increasing danger that big bonuses – some of £1m or more – can pose to those who pay them.

It is sometimes said that financial stars deserve exceptional rewards as much as the top talent in sport or show business. But there is an important difference, highlighted in an article today in the Bank of England's Financial Stability Review. Whereas there is no incentive for a top-flight soccer player to take risks which would damage his team, a financial trader may take risks which could seriously injure his firm.

Whether Mr Nick Leeson, the man who brought Barings Bank to its knees, was primarily motivated by his bonus or by fear of failure, the point remains: high bonuses can induce traders to cut regulatory corners as well as to take high risks. Moreover, as the Bank of England points out, bonus incentives can be highly asymetrical, especially in prosperous times. A trader who takes a big risk stands to make enormous sums of money. But when his profits are lower, bonuses are seldom negative. Increasingly, the level is guaranteed. So the main risk to the employee is of being fired; but high fliers can often find another job with ease.

Investment banks have thus got themselves into a bind by paying ever larger premiums to prevent key employees, or teams, from defecting. It will not be easy for them to change, as was suggested by Salomon Brothers' loss of many senior employees after it changed its remuneration structure.

However, as the Bank of England suggests, more might be done to make bonuses reflect long term performance, to factor in some measures of the risks taken with the firm's capital and to introduce some uncertainty about payments. This last would allow managers to assess traders for loyalty, team-playing and prudence as well as more narrowly for their score on a measure of profits. While partnership structures such as that of Goldman Sachs, the US investment banker, may avoid some of the problems, there are doubts as to how appropriate they are in such a highly capital intensive industry.

High performers must be highly paid. But there is a strong case now for the City to find incentives to induce its top strikers to behave just a little more like goal-keepers

Downstairs

More people are rich enough to afford servants, and more people are poor enough to be willing to serve.

In 1995, 0.4 per cent of total household spending in the UK went on domestic help, the same as in 1968. In the last 10 years, that proportion has more than doubled. Butlers announcing "you rang, m'lud" remain rare. But the army of cleaners, gardeners and child minders serving the prosperous middle classes is growing rapidly.

Half of women with children under 10 go out to work. And the gap between earnings at the top and bottom has widened. In the mid-1970s, the highest paid 10 per cent earned 2.4 times the lowest paid. That ratio has now risen to 3.5 times. Hard-pressed professionals – whose working hours have increased in recent years – see household service as a way of buying that most precious of commodities: time.

Until the first world war, domestic service accounted for more than 14 per cent of the workforce. Even families of relatively modest means had cooks and housekeepers. The pattern then changed, as the wages of domestic staff increased and technology eased the burden of domestic chores.

Now, household work is moving from unpaid housewives into the market place. But the resulting market has some unattractive features. It is not transparent. Information about wage levels is scarce; jobs and earnings are often insecure, and pay is poor. Tax and social security contributions are widely avoided, which means employees may miss out on benefits.

There is little that government can do in practice to improve the workings of this market. Increased surveillance is unlikely to recover much additional tax. And tax breaks are risky. In France, the cheque de service scheme offers a reduction in employers' social contributions to encourage compliance. But such schemes can seriously distort the market for low-wage labour.

However, the informal arrangements common nowadays are beginning to give way to contracts with agencies. This institutionalisation gets round some of the problems with transparency, security and tax evasion.

Agencies are better able to vet staff for trustworthiness, and they have a professional reputation to keep. They are also more likely to comply with tax laws. As the market for this kind of work becomes more developed, so its wrinkles should gradually start to be ironed out.

New dawn in the east

Chinese membership of the World Trade Organisation now looks closer, say **Guy de Jonquières** and **Tony Walker**

When World Trade Organisation members meet Chinese negotiators in Geneva this week there will be a buzz of optimism. Efforts to bring the world's most populous country firmly into the global economic community may be set for a breakthrough.

The stakes are potentially vast. A deal to admit China to the WTO could open the country's fast-growing economy to much freer international competition in the next few years, creating many business opportunities for foreign exporters and investors.

Equally important, WTO membership would place China's often unpredictable international trade relations on a more stable footing. Sometimes chided by western critics as an economic rogue elephant, the country would be required to live in a framework of binding rules and disciplines based on free trade principles.

China applied to the General Agreement on Tariffs and Trade, the WTO's predecessor, a decade ago. Negotiations since then have achieved little, prompting Beijing to threaten more than once to walk away from the bargaining table.

Now, however, a warming in once-frosty political relations between China and the US has removed one of the biggest obstacles to progress. After years of being accused by Beijing of stubbornly thwarting its WTO entry, Washington has sought to speed up the negotiations and promised a more flexible approach.

China has responded by displaying a more businesslike attitude and a readiness to compromise – a big break with its previous belief that it could secure WTO entry by bluff and bluster, as if claiming its birthright.

Western officials say the change has transformed the negotiating atmosphere – and prospects for an agreement. "It is clear that China now sees a political window of opportunity to do a deal," says a senior European diplomat.

But big hurdles remain. Decisive progress will require China to demonstrate a firm commitment to pursuing market-based reforms and opening its economy to the world, after the death last month of Deng Xiaoping, its paramount leader.

Getting a deal will be an important test of US President Bill Clinton's push for closer working ties with China, when many members of Congress are still suspicious of Beijing's intentions and sceptical about international trade initiatives.

Western diplomats say Beijing now recognises WTO membership requires detailed agreements on many complex issues. These include the removal of tariffs, quotas, subsidies, investment restrictions and other barriers, and acceptance of core WTO principles and disciplines.

"The level of Chinese understanding has certainly increased, appreciably so," says Ms Charlene Barshefsky, acting US trade representative.

Establishing a firm timetable for China's WTO entry is being seen as the desired headline achievement of a summit between Presidents Clinton and Jiang Zemin, tentatively planned for later this year. Delivering results by then will require a formidable negotiating effort.

Some western officials have been encouraged by recent indications that China is preparing to budge on some issues, but are still waiting for it to turn these hints into firm offers. "The rhetoric has improved, but it's what's on paper that counts," says Ms Barshefsky.

China, she says, seems willing to move only on isolated issues, when a more comprehensive approach is required. Although China has hinted at further tariff cuts, Ms Barshefsky says these mean little unless other obstacles to imports are removed.

Western negotiators say Beijing's liberalisation proposals are also often imprecise. "It is not clear they are yet fully prepared for the decisions on what they have to do," says a senior EU official.

China's ability to respond swiftly to these concerns is limited by several constraints, which can only be made more difficult by political manoeuvring in Beijing following Deng's death.

China's negotiators are nervous about being rejected by the WTO again, after the country's failure to join the body as a founding member two years ago. "They are under huge pressure at every level to avoid a rebuff," says a European ambassador to Beijing.

But China faces a hard task squaring WTO entry terms with powerful domestic interests which are deeply suspicious of membership. They include the state-owned enterprise lobby and state trading companies which stand to lose lucrative monopolies.

A US official says the "bottom line" for state companies is the fear of being driven out of the market by fiercer international competition. The state enterprise lobby plays on concerns among the leadership by warning that WTO entry will increase unemployment in urban areas, where state companies provide many jobs.

While Chinese leaders may be dedicated to long-term economic liberalisation, the heads of enterprises, functional ministries and trading corporations want to go slow. That means that, as China's negotiators bargain in Geneva, parallel negotiations are lumbering on in its national bureaucracy on the costs of entry.

That makes for difficult WTO talks on reducing the elaborate subsidies on which China's economy rests. Although often hard to identify, the subsidies are widely blamed by China's trade partners for distorting markets and discriminating against competition. Big agricultural exporters, such as the US, Australia and Canada, say subsidies are a particular problem in the farm sector.

Another sticking point is services. Vested interests oppose a significant opening of this sector – particularly banking – to foreign competition, saying that Chinese institutions need longer to become competitive.

The US, the European Union and Japan accept that China needs time to reform its trade regime after WTO entry. However, there is no agreement on how long it should be given to adjust, and in what sectors.

"That is really the guts of it," says one western official in Beijing. "The closer to five-year transitional periods, the happier we will be. But for the Chinese, the closer to 15 years, the more satisfied they will be."

Securing acceptable terms – and ensuring that they can be effectively monitored and enforced once China joins the WTO – poses a sensitive political challenge for many western governments, above all the US.

US manufacturers with interests in China are pressing hard for a deal on WTO membership. But an agreement would also need to open agricultural markets enough to satisfy the farm lobby, whose support is widely seen as essential to any US trade initiatives this year.

President Clinton may find it hard to prevent China's WTO bid from being entangled in a looming power struggle with Congress over who runs trade policy.

Influential members of both parties, disenchanted with many past trade deals, such as the North American Free Trade Agreement, are pressing to give Congress a bigger say in future ones. Some want the right to approve any WTO agreement with China line-by-line – a process which could lead to delays or even rejection.

These concerns may also make it harder to remove the long-standing requirement that Congress renew annually China's most favoured nation trade status, which guarantees its exporters access to the US market.

Under WTO rules the US ought to grant China permanent MFN status as soon as it joins the organisation. Some officials in Washington would like the US to make such a move before then, saying that it would increase China's incentive to negotiate constructively.

Many in Congress are resisting such a move. They insist that China must first show that it has handled the handover of Hong Kong responsibly and take action to reduce its growing trade surplus with the US, which reached $40bn last year.

In the past month a further political uncertainty has emerged, in the form of allegations that China's embassy in Washington co-ordinated contributions to President Clinton's re-election campaign.

Although the allegations are still unproven, some conservative American critics of Beijing have suggested the exercise was intended to manipulate Washington's attitude to China's WTO membership application.

"The Chinese embassy involvement could blow up in President Clinton's face," says Mr Nicholas Lardy, a China scholar at the Brookings Institution in Washington. "It puts him in an awkward position domestically, even if it is shown that China was not trying to influence policy, but simply to get better intelligence about it."

These mounting challenges in Washington, with the uncertainties in Beijing after Deng's death, mean that the success of China's WTO application is likely to hinge on more than detailed negotiations over tariffs, quotas and subsidies.

Some observers are warning that without clear political leadership, China's membership risks being submerged by political infighting over largely unrelated issues in both capitals.

Mr Robert Kapp, head of the US-China Business Council, a US industry lobby group says: "If that happens, it may not then matter that a good agreement has been reached on the substance of China's WTO accession, because the window of opportunity will have been lost."

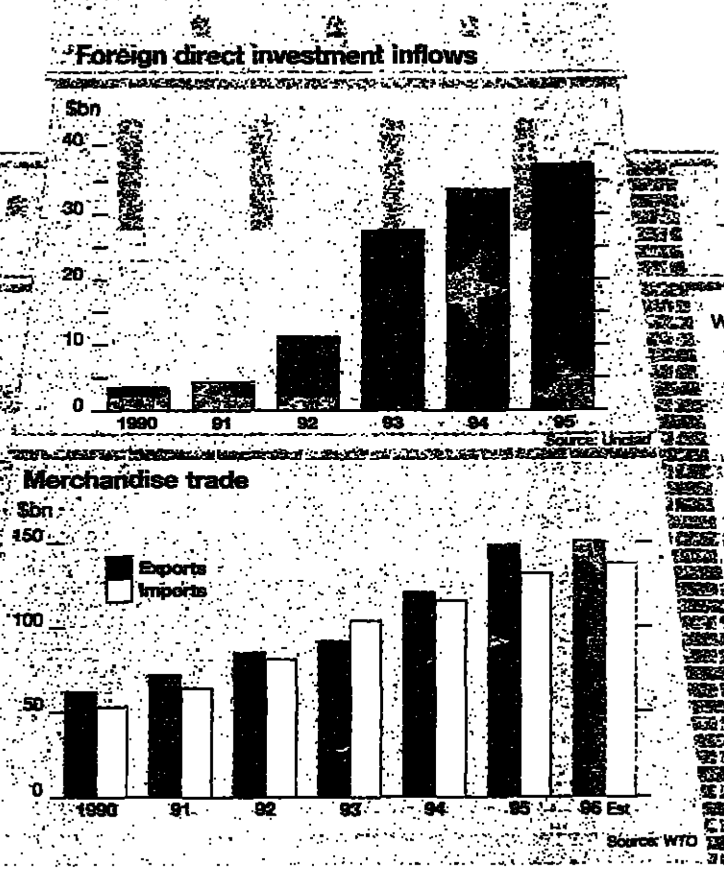
China: joining the world league

Top exporters

World merchandise trade (1995)

Ranking	Value ($bn)	Share (%)
US	583.9	11.6
Germany	508.5	10.1
Japan	443.1	8.8
France	286.2	5.7
UK	242.1	4.8
Italy	231.2	4.6
Netherlands	195.3	3.9
Canada	192.2	3.8
Hong Kong	173.9	3.5
Belgium/Lux.	168.3	3.3
China	148.8	3.0
South Korea	125.1	2.5

Source: WTO



Top importers

World merchandise trade (1995)

Ranking	Value ($bn)	Share (%)
US	771.3	14.9
Germany	443.2	8.6
Japan	336.0	6.5
France	274.5	5.3
UK	265.3	5.1
Italy	204.0	3.9
Hong Kong	196.1	3.8
Netherlands	175.9	3.4
Canada	168.4	3.3
Belgium/Lux.	154.2	3.0
South Korea	135.1	2.6
China	132.1	2.6

Source: WTO

Graphic by Chris Walker

· O B S E R V E R ·

New broom for Brussels

■ A new British broom is about to sweep through the European Parliament. Julian Priestley, who took over as secretary general this weekend, is the youngest ever occupant of an increasingly important administrative post.

But the 46-year-old Priestley is a veteran parliamentarian. A former president of the Oxford Union and Young European Federalist, he arrived in Brussels in 1973 – when the Parliament was still known as the European Assembly – and has spent his whole career in the institution. He found time, though, to contest three general elections as a Labour candidate in his native Plymouth; on the last occasion, in 1983, he lost to former British foreign secretary David (now Lord) Owen.

Priestley's first job will be to inject professionalism into the parliament's unwieldy secretariat. The administrative side has long been riddled with patronage; its split domicile between Brussels and Luxembourg is an invitation to inefficiency. Reforms are essential if the institution is not to grind to a halt following the next round of EU enlargement in central and eastern Europe.

Priestley's other big job is to get a grip on the budget for the Parliament's new buildings in Brussels and Strasbourg – a challenge which sometimes seemed to eluded his predecessor Enrico Vinci.

Cold storage

■ Things ain't what they used to be at Eatons, the department store chain that has been an icon of the Anglo-Canadian establishment for more than a century. The chain which kitted out prospectors heading for the Yukon gold rush has sought protection from its creditors; over the next few months the company will try to restructure its 85-store operation.

The controlling Eaton family is unaccustomed to creditors and journalists poring over their books. The four brothers currently minding the shops – John Craig, Frederik, Thor and George – prefer to keep a low profile in business. Frederik emerged from the shadows in the early 90s as Canada's high commissioner in London, while George once dabbled in Formula One motor racing.

The chain made its name back in the 19th century with a weighty catalogue and a promise of "goods satisfactory, or money refunded". But times have changed and now Eatons is being squeezed by stiff competition from Wal-Mart and other US discounters. Keeping five generations of the family employed in the business probably hasn't sharpened Eatons' competitive edge.

Rings a bell

■ Kicking off his maiden eight-day tour of south-east Asia in Manila this weekend, South African President Nelson Mandela livened things up by appearing with his sweetheart Gracha Machel, the first time she has accompanied him on a state visit.

Mandela, who divorced second wife Winnie last year, usually travels with his daughter Zenani or granddaughter Rochelle. Amid a 21-gun salute and full military honours Machel – the 51-year-old widow of Somora Machel, the former president of Mozambique – was presented to President Fidel Ramos as Mandela's "companion".

After signing a series of trade agreements Mandela leaves Manila today for Brunei; but the local press was more interested in his personal life than in the dull old business of trade. So does the president have any wedding plans?

With the poise of a true statesman, Mandela deftly sidestepped the personal question. "My cultural background does not permit me to discuss this question with people young enough to be my children or grandchildren," replied the sprightly 78-year-old. Enough to silence the most determined hack.

Tooth and nail

■ In a speech two weeks ago Federal Reserve chairman Alan Greenspan asked whether the Commodity Futures Trading Commission, one of Washington's smaller regulators, was really necessary; he has also put his weight behind a bill being drafted in the Senate that would curtail the agency's activities.

After a week collecting her thoughts, CTFC chairwoman Brooksley Born has responded with gusto. She said Greenspan's comments didn't surprise her. "He is a central banker who has long been dedicated to free markets and deregulation. His philosophy is one of *caveat emptor*, let the buyer beware." She added: "This country has been dedicated to something other than *caveat emptor* for the last 70 years."

But it will take more than sharp words and appeals to history for Born to turn back the tide of deregulation which threatens her agency: the Fed, the US Treasury, the investment banking community, and most of the futures industry are lined up in favour.

The Financial Times

100 years ago

Her Majesty's Jubilee
It seems that the celebration of the Diamond Jubilee [of Queen Victoria] is not the only event of the kind that will make the present year illustrious in the history of Great Britain. The Directors of Price's Patent Candle Company inform their shareholders in their report for 1896 that this concern commenced its corporate existence in May, 1847, so that its fiftieth year "corresponds auspiciously with the year in which the Queen's subjects throughout the civilised world are about to celebrate the completion of sixty years of Her Majesty's beneficent reign." This additional excuse for illumination should make the report for 1897 pleasant reading.

50 years ago

Malay Rubber Agitation
Singapore, 2nd March. The Malayan Union Government is taking firm action to deal with the situation in the planting districts of Central Kedah, where intimidation of labour forces by a militant youth corps organised by so-called labour leaders is held to be responsible for riots and disturbances.

FINANCIAL TIMES
Monday March 3 1997

Swiss Telecom's flotation given green light for 1998

Country's first big sell-off could raise more than $3bn

By William Hall in Zurich

The Swiss government has given the go-ahead for the country's first big privatisation. It plans to sell up to 49 per cent of Swiss Telecom next year in an initial public offering which could raise up to SFr5bn ($3.4bn) on the international capital markets.

The government announced at the weekend that the department of transport, communications and energy would prepare for a stock market float of Swiss Telecom in the second half of 1998.

The government has retained J.P. Morgan as an adviser, and Credit Suisse First Boston is advising Swiss Telecom.

Switzerland, which is following the European Union timetable for liberalising the telecommunications market, will open its market to full competition from next year.

It is splitting the parent company Swiss PTT into two separate businesses. The Postal Service, which employs nearly 40,000 and has reported its first profit since 1945, will remain state-owned, but the profitable telecoms business, Swiss Telecom, which employs about 20,000, will be partially privatised. A full privatisation is not envisaged since this would require a change in the country's constitution.

Switzerland, with 4.5m exchange lines for its 7.3m population, has one of the highest density phone networks in the world. It is being rapidly digitalised.

The combination of high profit margins on domestic business and Switzerland's position as the seventh-biggest market in outgoing international telephone calls is expected to attract considerable investor interest, in spite of the crowded agenda for international telecoms issues over the next 18 months.

Swiss Telecom's pre-tax profits nearly doubled between 1993 and 1995, to SFr1.4bn on sales which rose 11 per cent to SFr10.5bn. But the company's 1996 profits, which were released on Friday, fell 48 per cent to SFr746m as a result of a restructuring charge. Cash flow in 1996 was SFr3.9bn.

Bankers involved in the privatisation of Swiss Telecom say it is too early to value the business. Its balance sheet will have to be restructured and its pension obligations sorted out before privatisation. Nevertheless, the company is one of the more efficient international operators and, based on its cash flow, could support a market capitalisation of more than SFr10bn.

But the sale to the international investment community will be tempered by the arrival of new competitors in its home market.

McDonald's franchisees agree to slash burger prices

By Richard Tomkins in New York

US franchisees of McDonald's, the fast food company, have overwhelmingly approved the company's plan to slash prices in an effort to stimulate flagging sales in the intensely competitive burger market.

The sales campaign, which will see the price of a Big Mac cut from $1.90 to 55 cents, comes in response to slowing market growth and tough competition from Burger King, owned by Grand Metropolitan of the UK, and Wendy's International. It marks an abrupt shift from the company's previous strategy of introducing more high-priced items.

Called "Campaign 55", the promotion will commemorate Mr Ray Kroc's 1955 opening of the first McDonald's in the Chicago suburb of Des Plaines.

The campaign, due to start in 55 days, is expected to include improved service as well as price cuts. McDonald's denied reports that customers would be offered a free burger if their order failed to arrive in 55 seconds.

Announcing the franchisees' decision late on Friday night, McDonald's said the vote in every region was well ahead of the 75 per cent required when outlets are asked to take part in a national programme.

There had been speculation that the franchisees, which own and operate 85 per cent of the 12,094 McDonald's restaurants in the US, might vote against the plan because it would erode profit margins.

However, Wall Street analysts have pointed out that the price cuts are not as big as they appear. If a 55 cent Big Mac is bought with a full-price serving of fries and a drink, the total outlay is only about 5 per cent less than the cost of the same items bought as a combination meal.

The franchisees, which are as worried as McDonald's about the company's loss of market share, appear to have calculated that they have more to gain from increased sales than they will lose from thinner margins.

Mr Jack Greenberg, chairman of McDonald's USA, said: "We are pleased that our owner-operators weighed the facts carefully and came to the same conclusion as we did. This initiative will be good for customers, our franchisees and our business."

Other fast food operators have said that they will maintain prices at current levels, but analysts say a price war could break out.

Ex-banker seeks top schools job in LA

Continued from Page 1

with posters warning "No Guns", and similar worthy strictures against the use of knives and drugs.

Bare concrete schoolyards are surrounded by ugly steel mesh fences to keep students in and molesters and other predators out.

The appointment of a professional manager would be a rare occurrence in a system where bureaucrats and their political backers have traditionally held sway.

Mr Siart said the school district needed management and a focus on results, rather than another educational specialist.

Among his primary aims would be bringing academic test scores up to at least the national average.

"We business people have always talked about education as a priority. But historically it has not been done very well," Mr Siart added.

Californian schools were recently ranked 37th of 50 states on academic achievement. Only Washington DC scored worse in an assessment of mathematical ability among 9-10-year-olds.

Californian employers, Mr Siart said, were increasingly concerned about the availability of adequately educated job candidates, and the region's ability to attract investment and highly qualified employees from other states.

Mr Siart said he had not applied for the post for lack of other offers. "When I left First Interstate I ended up very well off financially and I don't have to do anything I don't want to do. This, I want to do," he said.

Castro courts the capitalists

By Pascal Fletcher in Havana

As smoke from thousands of dollars worth of Havana cigars coiled to the ceiling, a beaming President Fidel Castro resisted the temptation to lecture his wealthy audience about the evils of capitalism.

Mr Castro, in his familiar olive-green military uniform, stood out from his dinner-jacketed and bejewelled guests. He may have considered that a tirade against capitalism, a favourite theme in his revolutionary repertoire, would not have been appropriate for an audience bidding thousands of dollars for cigar-filled cabinets he had autographed. They fetched up to $80,000 each.

The guests sitting before him – more than 700 cigar distributors, capitalists and *bons vivants* from around the world – had paid $500 apiece to attend a cigar-sampling gala dinner at the famous Tropicana Club, a relic of pre-Castro Havana nightlife which Cuba's Communist government has shrewdly preserved.

The glittering social gathering capped a week of events to mark the 30th anniversary of the Cohiba, a premium Havana cigar brand created by Mr Castro after the 1959 revolution.

More than 100 of the guests had even travelled to Havana from that neighbouring bastion of capitalism and "imperialism", the US, to taste the forbidden fruit of Havana cigars.

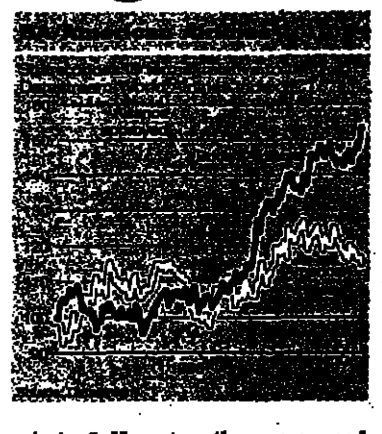
In doing so, they were blowing smoke at the 35-year US economic embargo against Cuba, under which travel by US citizens to the island is restricted. Many of the Americans present – including businessmen, entrepreneurs, restaurateurs and hoteliers – were not keen to be photographed or interviewed.

What a shame, Mr Castro said, that the US trade embargo prevented US president Bill Clinton from enjoying Havana cigars.

Boosted by foreign financing, Cuba's tobacco production is recovering from a recent decline and the island exported a total of 70m cigars in 1996, earning more than $100m in hard currency.

THE LEX COLUMN

Defusing the bonus



The Bank of England's analysis of how bonus structures can skew traders' appetites for risk could hardly be better timed, given NatWest's recent problems with a wayward options trader. The Bank correctly points out that a typical bonus structure – in which a trader's remuneration rises with the profits he generates – is like a call option. As revenue goes up, so does his bonus; but if there are big losses, the most he loses is his job. Paradoxically, the common practice of dismissing traders when they lose money can also increase risks. A trader in the relegation zone may have everything to gain and nothing to lose by raising the stakes.

The defects of all-or-nothing bonuses, where an award is made only when a specific target is hit, are perhaps even greater. A trader just shy of the target has an incentive to take huge risks. Equally, once the target has been met, the trader could be excessively risk-averse.

The best way of avoiding one-way bets is to pay traders deferred bonuses – allowing banks to claw back awards made in previous years if there are losses. The Bank points out that this is unpopular with employees. But that is hardly a reason to stick with the wrong bonus structure. Employers should be prepared to make compensating adjustments to other elements of their traders' package as a quid pro quo. And those traders who still do not like it should be regarded as high risks and shown the door.

BA/American

Befuddled or bored by the tortuous progress of British Airways' and American Airlines' planned alliance? By now, most investors are both. But through a fog of propaganda and regulatory double-talk, it is important to keep an eye on the essentials of the process.

Start with the regulators. Now the UK authorities have said their bit, the alliance needs approval in the US. With American's competitors squawking loudly, this will be slow and difficult. But the underlying fact remains: the UK is dangling a succulent carrot – opening London's Heathrow airport – which the US badly wants. Yes, more Heathrow slots will probably have to be offered. Yes, some US destinations may be excluded. But in the end, the chances of the US killing the plan look slim.

What then of the European Commission? Here too there are good reasons not to fret. Assuming BA/AA have to offer more slots to please US regulators that should also help appease Mr Karel Van Miert, the competition commissioner. But even if not, he cannot block the deal; he can merely ask the Commission to refer it to the European Court. The Court would then have to find that the UK's decision contravened the deeply fuzzy Treaty of Rome. And even if it did? Most likely, BA/AA would just have to give up yet more slots.

Shedding further slots matters only if they have to be given away for less than they are worth. Unfortunately, this is exactly what Mr Van Miert claims European law requires. And hopes of legalising the present under-the-counter slot-selling in time to help BA/AA now look forlorn. So do BA/AA simply go ahead and sell, risking a court challenge from the Commission? Probably. But the risk of a successful challenge cannot altogether be ruled out.

How much would that matter? Between them, BA/AA are being asked to shed slots worth £150m-£200m ($243m-$324m, based on the last public trade in Heathrow slots), or £300m (based on BA's average Heathrow profitability). Is it worth it? The alliance's finances are tricky to gauge since the airlines have said little on the subject. Nevertheless, the analysis can go beyond simply reckoning on a bigger variant of BA's old alliance with USAir.

The equation has three main parts. First is the damage that more competition is bound to do to prices. But this should be far outweighed by the revenue gains from plugging together BA/AA's transatlantic services with American's domestic network and BA's European routes. Why? Simply because of airline economics; in a low-margin, highly-geared business bums on seats count more than anything.

But in an alliance of this depth, costs cannot be forgotten. Costs attributed to BA North Atlantic services are roughly £1.7bn a year. Even if just 5 per cent can be cut, operating profits from these services would be lifted by 35 per cent.

To arrive at a net increase in BA's *overall* pre-tax profits of £150m-£200m a year from such assumptions – roughly 30 per cent – is surprisingly straightforward. Yet little credit for this potential is given in the company's share price, which still stands at a 20 per cent discount to the market average prospective price/earnings multiple. Peer through the regulatory forest, and the shares look cheap.

Hotels

Hotels have become the latest hotbed of mergers and acquisitions activity. Hotel companies are generating substantial cashflow after years of recession at the same time as the industry has picked up the mantra of consolidation. And the number of deals, and prices paid, is rising *fast*. Hilton Hotels set the ball rolling with its $6.5bn offer for ITT and its Sheraton brand. Now, the competition is worried about getting left behind. Marriott paid $1bn for the Renaissance Hotel group, a deal which may not enhance earnings until 2000. Hyatt has announced plans to invest $1bn over the next three years, and Four Seasons is chasing Lonrho's Princess Hotels resort chain.

The Renaissance deal suggests the market is getting a little frothy, but the logic for consolidation is compelling. The aim is to have an unmatched booking network, with consistent quality of hotels around the globe. Economies of scale provide a more competitive cost base. But more importantly, a global presence makes loyalty programmes more seductive, and gives clout for negotiating with multinational corporate clients.

More US bids are likely, particularly at the four star end of the market. But the next wave could be international deals, as US companies buy global reach at a time when properties can still be acquired at below their construction cost. Granada's Meridien chain is an obvious candidate and Inter-Continental Hotels would probably prefer a trade sale to its planned flotation.

FT WEATHER GUIDE

Europe today

Scandinavia will continue to be unsettled. Norway will have cloud and rain, while Denmark and Sweden will have bright spells and showers.

A similar pattern will occur over the British Isles, with England and Ireland staying dry and showers in Scotland.

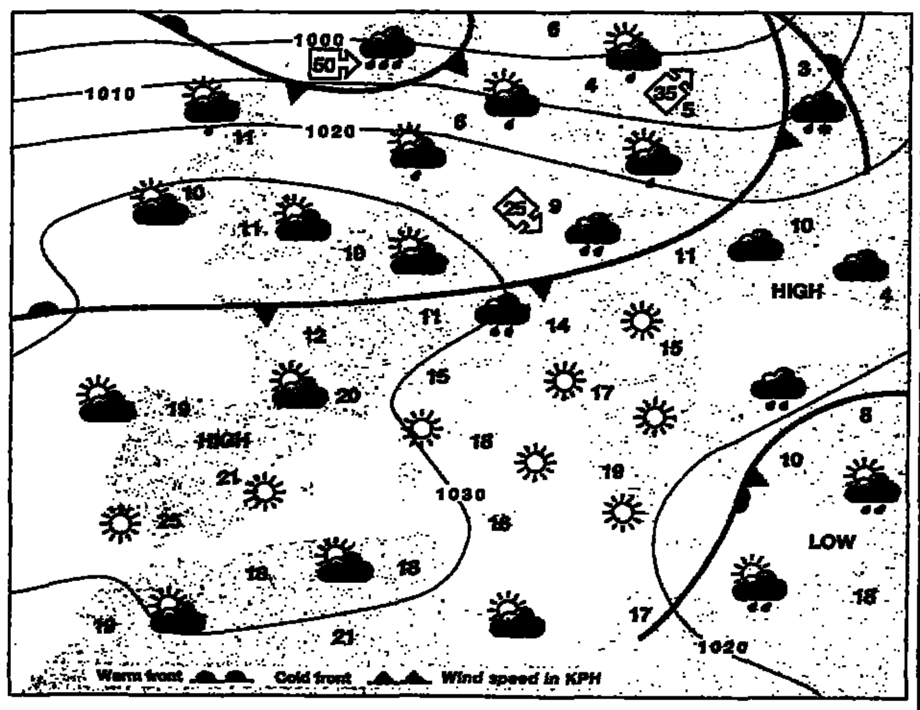
A band of cloud and rain will move southward over France and central Europe. Bright periods will follow in its wake. Southern Europe will be mostly sunny, dry and mild.

Eastern Europe will be covered by an extensive cloud mass accompanied by patches of rain and fresh westerly breezes. The eastern Mediterranean will have several heavy showers.

Five-day forecast

Central and western Europe will be mostly dry with sunny periods. The western Mediterranean will have afternoon temperatures well above 20C.

North-western Europe will remain unsettled, but mild.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Celsius
Abu Dhabi	sun	24
Accra	thund	31
Algiers	fair	18
Amsterdam	fair	10
Athens	sun	14
Atlanta	thund	20
B. Aires	sun	27
B.ham	fair	10
Bangkok	fair	37
Barcelona	fair	18
Beijing	sun	9
Belfast	cloudy	9
Belgrade	sun	17
Berlin	sun	10
Bermuda	fair	25
Bogota	shower	21
Bombay	sun	35
Brussels	cloudy	9
Budapest	cloudy	14
C.hagen	cloudy	7
Cairo	fair	19
Cape Town	shower	24
Caracas	fair	28
Cardiff	cloudy	9
Casablanca	fair	19
Chicago	fair	5
Cologne	fair	11
Dakar	sun	31
Dallas	sun	23
Delhi	sun	31
Dubai	sun	25
Dublin	cloudy	10
Dubrovnik	sun	19
Edinburgh	shower	9
Faro	sun	21
Frankfurt	shower	12
Geneva	cloudy	16
Gibraltar	sun	18
Glasgow	rain	9
Hamburg	fair	9
Helsinki	fair	8
Hong Kong	fair	25
Honolulu	cloudy	28
Istanbul	sun	10
Jakarta	fair	29
Jersey	cloudy	10
Karachi	sun	31
Kuwait	fair	23
L. Angeles	fair	19
Las Palmas	fair	23
Lima	fair	28
Lisbon	sun	24
London	fair	11
Lux.bourg	fair	10
Lyon	cloudy	17
Madeira	fair	22
Madrid	sun	21
Majorca	sun	18
Malta	sun	17
Manchester	fair	10
Manila	drzzl	32
Melbourne	shower	21
Mexico City	sun	27
Miami	sun	29
Milan	sun	17
Montreal	fair	-2
Moscow	cloudy	6
Munich	rain	14
Nairobi	fair	30
Naples	sun	17
Nassau	fair	29
New York	cloudy	6
Nice	sun	17
Nicosia	shower	18
Oslo	shower	6
Paris	rain	12
Perth	sun	30
Prague	cloudy	11
Rangoon	sun	36
Reykjavik	snow	-1
Rio	shower	27
Rome	sun	16
S. Frsco	cloudy	14
Seoul	fair	8
Singapore	cloudy	32
Stockholm	fair	8
Strasbourg	rain	14
Sydney	fair	21
Tangier	fair	20
Tel Aviv	shower	18
Tokyo	cloudy	13
Toronto	fair	-1
Vancouver	rain	7
Venice	fair	13
Vienna	rain	14
Warsaw	fair	10
Washington	rain	8
Wellington	cloudy	19
Winnipeg	snow	-6
Zurich	drzzl	15